

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)

1928

PART NUMBER

Part 4

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

December 20, 1928

To All Members of the Board

Subject: 333-6-1

From Mr. Eddy

... 2-8495

At the meeting this morning there was ordered circulated the attached letter, dated December 18th, from the Deputy Governor of the Federal Reserve Bank of New York, with respect to transactions in the Open Market Investment Account during the period December 3 to December 17.

- ✓ Governor Young,
- ✓ Mr. Platt,
- ✓ Mr. Hamlin,
- ✓ Mr. James,
- ✓ Mr. Cunningham,
- ✓ Mr. Miller,
- ✓ Mr. Pole.

Boards

FEDERAL RESERVE BANK
OF NEW YORK

DEC 21 1928
THE GOVERNOR
333. 1

December 18, 1928.

Dear Governor Young:

Carried

As there has been a considerable number of transactions in the Open Market Investment Account from December 3, 1928, to and including December 17, 1928, it occurs to us that you may be interested in reviewing the enclosed memorandum (copy of which is being forwarded today to the governor of each of the other eleven Federal reserve banks) showing the replacements which were necessary in order to take care of the \$10,000,000 of U. S. Treasury certificates maturing December 15, 1928, and the sales to foreign correspondents of \$32,420,000 March 15, 1929 U. S. Treasury certificates.

Very truly yours,

J. H. Case
J. H. CASE,
Deputy Governor.

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

Enclosure.

Ordered Circulated
AT ST. LOUIS
DEC 21 1928

see memo 12/20/28

EtC 12/7/28

333-61

Open Market Inv Com 1928

Letter to be addressed to the Chairman and Members of
The Open Market Investment Committee:

12/7/28

Dear Sirs:

In order to avoid any misunderstanding, you are advised that any action of the Federal Reserve Board in approving the purchase or sale of bonds, acceptances, or other securities, by the Open Market Investment Committee, or in approving any proposal or recommendation of said Committee, shall, in no event, be considered as in effect beyond the date of the next meeting of the Open Market Investment Committee with the Federal Reserve Board.

By order of the Federal Reserve Board.

Secretary.

No 8.

8

Open Market Inv Com 1928.

Letter to be addressed to the Chairman of the Open Market Investment Committee

December 7, 1928.

Dear Sir:

In order to avoid any misunderstanding you are advised that any action of the Federal Reserve Board in approving the purchase or sale of bonds, acceptances, or other securities by the Open Market Investment Committee, or in approving any proposal or recommendation of such Committee, shall be considered as in effect until rescinded by the Board, but in no event beyond the date on which the Open Market Investment Committee next thereafter meets with the Federal Reserve Board.

Very truly yours,

R. A. Young,
Governor.

GBV vdb

GBV

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

Letter to be addressed to the Chairman of the Open Market
Investment Committee

December 7, 1928.

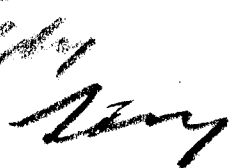
Dear Sir:

In order to avoid any misunderstanding you are advised that any action of the Federal Reserve Board in approving the purchase or sale of bonds, acceptances, or other securities by the Open Market Investment Committee, or in approving any proposal or recommendation of such Committee, shall be considered as in effect until rescinded by the Board, but in no event beyond the date on which the Open Market Investment Committee next thereafter meets with the Federal Reserve Board.

By order of the Board.

Very truly yours,

~~E. A. Young~~
Governor.



R. A. Y.
DEC 5 1928

333-8-1

X-6175

12-7-28

Carded

SUGGESTED REVISION OF OPEN MARKET INVESTMENT
PROCEDURE.

(1) That the Open Market Investment Committee, as at present constituted, be discontinued.

(2) That a Committee to be known as The Open Market Policy Conference be set up with a representative from each of the twelve Federal reserve banks, the representative to be designated by the Board of Directors of the bank. *(and in alt.)*

(3) The Open Market Policy Conference to be under the chairmanship of the Governor of the Federal Reserve Board and to meet with the Federal Reserve Board at such times as may be arranged by or with the Federal Reserve Board.

(4) That it shall be the function of The Open Market Policy Conference to consider, prepare and recommend plans with regard to the purchase or sale of securities in the open market for account of the Federal Reserve System and participating Federal reserve banks.

(5) That the time, manner, character and volume of such purchases and sales shall be governed primarily with the view of accommodating commerce and business and with regard to their bearing upon the general credit situation.

(6) That for the purpose of executing such purchases and sales of securities for System account as may be approved by Federal reserve banks and the Federal Reserve Board there shall be constituted a committee to be known as The Open Market Executive Committee.

amuly.

See copy filed 11-10-28

K. A. Y.
DEC 5 1928

333-6-1

X-6175

12-7-28

Carded

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PROCEDURE.

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amuly.

(as per alt.)

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(4) That it shall be the function of The Open Market Policy Conference to consider, prepare and recommend plans with regard to the purchase or sale of securities in the open market for account of the Federal Reserve System and participating Federal reserve banks.

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(6) That for the purpose of executing such purchases and sales of securities for System account as may be approved by Federal reserve banks and the Federal Reserve Board there shall be constituted a committee to be known as The Open Market Executive Committee.

See copy filed 11-10-28

333-61

December 3, 1928

Dear Mr. Case:

This will acknowledge receipt of your letter
of November 28, reporting sales of Government securities
from the Open Market Investment Account of \$38,800,000,
being the exact amount acquired on November 19 and 20
from a foreign correspondent.

Yours very truly,

R. A. Young,
Governor.

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

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
DEC 1 1928
FEDERAL RESERVE BOARD
333

DEC 2 1928
F. A. Y.

November 30, 1928.

Dear Governor Young:

For Mr. McGarrah I acknowledge with thanks the receipt of your letter of November 27 addressed to him, as Acting Chairman of the Open Market Investment Committee, and informing us of the action taken by the Federal Reserve Board on the report of the Open Market Investment Committee dated November 15, 1928.

A copy of your letter is being forwarded by us today to the governors of the other Federal reserve banks for their information.

Very truly yours,



J. H. CASE,
Deputy Governor.

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

Enclosure.

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
NOV 30 1928
FEDERAL RESERVE BANK
333

Board

November 28, 1928.

Dear Governor Young:

Under dates of November 19 and 20 I wrote you concerning the purchase by us, on those dates, from a foreign correspondent, of \$38,800,000 U. S. Treasury notes for the Open Market Investment Account.

I now have to report that sales from the account have been made aggregating a total of \$38,800,000, being the exact amount acquired, and we are today writing to all the other participating Federal reserve banks to that effect. Copy of our letter is enclosed for your information and files.


Very truly yours,



J. H. CASE,
Deputy Governor.

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

Enclosure.

Noted
AT BOARD MEETING
3 1928


see ans 12/3/28

November 28, 1928.

Dear Governor :

Referring to my telegram of November 19 concerning the purchase of \$38,800,000 United States Treasury 3 1/2% notes, due March 15, 1930-32, which we acquired on November 19 and 20 from a foreign correspondent at 97 28/32, sales of these notes have been made from the System Account as follows:

\$25,800,000	of the foregoing notes sold and delivered at 98 (a profit of 1/8)
8,000,000	of the foregoing notes sold for delivery December 3, 1928, at 97 28/32 (cost price)
<u>\$33,800,000</u>	Total March notes sold

In order to balance total purchases, however, we sold from the account \$5,000,000 of longer-term notes; viz., December 15, 1930-32, at 98 2/32, which transaction may be considered as offsetting the balance of \$5,000,000 of the March issue unsold; so that a total of \$38,800,000 has been sold, offsetting the original purchase. The net profit, therefore, all rests on the \$25,800,000 notes sold at a premium over cost, aggregating \$29,708.93, which, as advised, we are now carrying in Suspense Account.

We shall hold this distribution in abeyance until December 3, when the \$8,000,000 sale will have been consummated at cost price, and we will thereupon credit your account with \$_____, being your proportionate share of the profit herein referred to.

Very truly yours,

J. H. CASE,
Deputy Governor,

Mr. _____,
Governor, Federal Reserve Bank of _____,
City, State.

333-61

November 27, 1928.

Dear Mr. McGarrah:

Recorded

Filed 333-62

The Federal Reserve Board has had under review the preliminary memorandum of the Open Market Investment Committee dated November 14, 1928, together with the report of the Committee dated November 15, 1928. It is pointed out in both reports that there are many undetermined factors in the present credit situation and the Board is in agreement with the conclusions of the Committee that for the present at least the policy should be one of "marking time".

The Board further observes that the Committee suggests the System should be prepared, in the event of an emergency, to prevent any undue stringency of credit, and that it should be the policy of the System to purchase Government securities if and when it might become necessary to avoid such credit stringency.

(6)

If the Board approves this recommendation it will give approval to a policy of buying an indefinite amount of Government securities. It does not care to give this approval for three reasons:

1. It would not be in harmony with expressions and actions already taken by certain reserve banks.
2. It is not prepared at this time to say definitely that an emergency should be handled by the purchase of Government securities, or whether other avenues should be resorted to.
3. It believes that if any real emergency develops in the country, it might be advisable to have another meeting of the committee.

During the interim, however, adjustments of temporary credit situations, which would not be in the nature of serious emergencies, may be advisable and the Board will hold itself in readiness to act promptly upon written or telephone request from the Committee in an amount not to exceed \$25,000,000.

Yours very truly,

R. A. Young

R. A. Young,
Governor.

Mr. Gates W. McGarrah, Acting Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York City, N. Y.

*5 * 5*

see ans 11/30/28

If the Board ~~approves~~ ^{unanimously} this recommendation it will give approval to a policy of buying an ~~unlimited~~ ^{unlimited} amount of Government securities. It does not care to give this approval for three reasons:


1. It would not be in harmony with expressions and actions already taken by certain reserve banks.
2. It is not prepared at this time to say definitely that an emergency should be handled by the purchase of Government securities, or whether other avenues ~~of action~~ ^{real} should be resorted to.
3. It ~~would~~ ^{might} believe that if any ~~serious~~ ^{real} emergency develops in the country, it ~~would~~ be advisable to have another meeting of the committee.

During the interim, however, adjustments of temporary credit situations, which would not be in the nature of ~~emergencies~~ ^{emergencies}, may be advisable and the Board will hold itself in readiness to act promptly upon written or telephone request from the Committee in an amount not to exceed \$25,000,000.

Yours very truly,

R. A. Young,
Governor.

Appd

AT BOARD MEETING
NOV 27 1928


FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

November 27, 1928

Dear Mr. McGarrah:

The Federal Reserve Board has had under review the preliminary memorandum of the Open Market Investment Committee dated November 14, 1928, together with the report of the Committee dated November 15, 1928. It is pointed out in both reports that there are many undetermined factors in the present credit situation and the Board is in agreement with the conclusions of the Committee that for the present at least the policy should be one of "marking time".

The Board further observes that the Committee suggests the System should still be prepared, in the event of an emergency, to prevent any undue stringency of credit, and that it should be the policy of the System to purchase Government securities if and when it might become necessary to avoid such credit stringency.

If the Board approved this recommendation, it would be giving approval to a policy of buying an unlimited amount of securities. The Board has sufficient evidence in its possession at the moment to lead it to believe that the Boards of Directors of certain Federal reserve banks do not care to give their approval to such a program; in fact, the directors of one bank limits the amount and would allow purchase only after obtaining the consent of two of their directors.

The Board is in complete agreement with the precautionary action taken by the directors of this particular bank and therefore disapproves the recommendation of the Committee. If, however, subsequent events develop wherein it may appear to the Committee that the purchase of not to exceed \$25,000,000 of Government securities may be advisable, the Board will hold itself in readiness to act quickly upon written or telephone request from the Committee. If the amount should go beyond this figure, the Board believes it would be advisable to have another meeting of the Committee to consider the advisability of further purchases of securities or other avenues of relief for any strained credit situation that may develop.

Yours very truly,

R. A. Young,
Governor.

Acting

Mr. Gates W. McGarrah, Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York City, N. Y.

See substitution above

Handwritten scribbles and initials in the top left corner.

FOR SPECIAL CIRCULATION
PLEASE READ THE INITIAL AND RETURN TO SECRETARY
Gov. Young ✓ Mr. Harlin ✓ Mr. James ✓ Mr. [unclear] ✓
Mr. Flatt ✓ Mr. Miller ✓ Mr. Cunningham ✓

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
NOV 24 1928
333
for file

November 23, 1928.

R. A. Y.
NOV 27 1928

5

Dear Governor Young:

As you perhaps know, Mr. Miller attended the meeting of our board of directors yesterday when the recent report of the Open Market Investment Committee was presented to the board for their approval. After a discussion of the report, in which reference was made to the action which the board of directors have taken each week since the adoption of the August report of the Open Market Investment Committee, Mr. Miller suggested that it might be interesting to the Federal Reserve Board to have a copy of the weekly resolution passed by our directors authorizing the officers to participate in the purchase of securities for the account of the System.

*See 333-60
11-15-28*

As you will remember, the report of the committee in August recommended that it should be the policy of the System to purchase government securities if it should become necessary in order to avoid undue credit stringency. When this report was presented to our directors, they took one vote approving the policy recommended by the committee, and approved by the Federal Reserve Board, and then, in order that the officers might have authority to participate in the purchase of securities taken for account of the System between meetings of the directors, the following resolution was adopted

FEDERAL RESERVE BANK OF NEW YORK

Hon. R. A. Young

11/23/28.

each week:

"VOTED to authorize the officers to participate in the purchase in the market of government securities up to \$25,000,000 for the Open Market Investment Account if it were deemed necessary by the officers to do so prior to the next meeting of the board of directors in order to carry out the policy recommended at the last meeting of the Open Market Investment Committee, with the understanding, however, that before exercising this authority the officers would consult with at least two of the directors."

As the resolution itself implies, our directors felt that as long as the System policy was to purchase securities, in the event of a possible emergency, the officers should be free to act instantly in the event of such an emergency, even between meetings of our board and executive committee. Appreciating, however, the importance of determining the emergency which should justify the purchase of securities, as recommended in the report of the committee, our directors felt that, before exercising the authority given to the officers, at least two of the directors should be consulted. The resolution quoted above is an exact copy of the one approved at each meeting of our directors between the August and November meetings of the Open Market Investment Committee.

You may also be interested to know that at the meeting of our board yesterday, Mr. Case presented the report of the Open Market Investment Committee dated November 15, which was read by the secretary, and which embodied the recommendations of the committee adopted at its meeting in

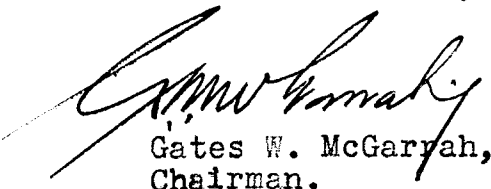
FEDERAL RESERVE BANK OF NEW YORK

Hon. R. A. Young,

11/23/28.

Washington last week. Our board duly voted to approve the report recommending the System policy, with the understanding, as explained by the officers, that the report contemplated the purchase of government securities only in the event of an emergency. After action was taken upon the report, the directors then passed a resolution similar to the one quoted above, giving specific authority to the officers to participate in the purchase of government securities up to \$25,000,000, if deemed necessary by the officers to do so, prior to the next meeting of the board, in order to carry out the policy recommended in the report. It was understood in this vote, as in the ones which have been passed each week, that before exercising this authority the officers would consult with at least two of the directors.

Very truly yours,


Gates W. McGary,
Chairman.

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

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FOR SPECIAL CIRCULATION
PLEASE REPLY BY RETURN MAIL TO THE SECRETARY OF THE BOARD
Gov. Young ✓ Mr. Harlan ✓ Mr. James ✓ Mr. [unclear] ✓
Mr. Platt ✓ Mr. Miller ✓ Mr. Cunningham ✓

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
NOV 24 1928
333

November 23, 1928.

NOV 27 1928
R.A.Y.

5

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As you perhaps know, Mr. Miller attended the meeting of our board of directors yesterday when the recent report of the Open Market Investment Committee was presented to the board for their approval. After a discussion of the report, in which reference was made to the action which the board of directors have taken each week since the adoption of the August report of the Open Market Investment Committee, Mr. Miller suggested that it might be interesting to the Federal Reserve Board to have a copy of the weekly resolution passed by our directors authorizing the officers to participate in the purchase of securities for the account of the System.

See 333-60
11-15-28

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FEDERAL RESERVE BANK OF NEW YORK

Hon. R. A. Young

11/23/28.

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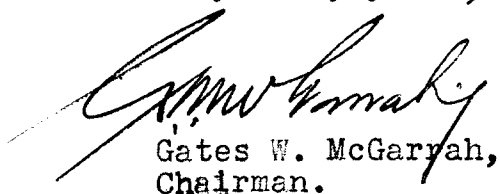
FEDERAL RESERVE BANK OF NEW YORK

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11/23/28.

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Very truly yours,



Gates W. McGaryah,
Chairman.

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

FOR FEDERAL CIRCULATION
FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
NOV 21 1928
FEDERAL RESERVE BANK OF NEW YORK

Please circulate Ray

November 20, 1928.

Dear Governor Young:

Supplementing my letter of November 19, reporting the purchase from a foreign correspondent of \$38,800,000 U. S. Treasury 3 1/2% notes, for Open Market Investment Account, and the subsequent sales, against this purchase, of a total of \$20,800,000, this is to inform you that we have today made a further sale of \$10,000,000 of the March 15, 1930-32 notes, for delivery tomorrow, on precisely the same basis as reported to you yesterday. This \$10,000,000 sale now makes the aggregate of offsetting sales, \$50,800,000.

(4)

Since the close of business last Wednesday our sales contracts have been reduced by approximately \$5,500,000, so that the net of the week's operations will be to show but a small increase of between \$4,000,000 and \$5,000,000 in the System's holdings of Government securities. We anticipate that during next week we may be able to sell to the market the \$8,000,000 overage of these notes remaining in the Open Market Investment Account.

The foregoing seems to us a fairly satisfactory disposition of the matter.

Faithfully yours,

J. H. Case
J. H. CASE,
Deputy Governor.

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

see letter 11/28/28

FOR GENERAL CIRCULATION

FEDERAL RESERVE BANK

NEW YORK

November 19, 1928.

RECEIVED
NOV 20 1928
FEDERAL RESERVE BANK
333

Dear Governor Young:

Confirming our conversation by telephone this afternoon concerning the block of \$38,800,000 of U. S. Treasury 3 1/2% notes due March 15, 1930-32, which amount we are taking over from one of our foreign correspondents under date of today and tomorrow, I have this afternoon sent the following two telegrams to the governors of the other Federal reserve banks, with the exception of Kansas City which is not participating in the account):

"Purchase has been made from a foreign correspondent of \$38,800,000 par value 3 1/2 percent Treasury notes March 1930-32 at 97 28/32 net and interest being market price quoted Friday November 16. These notes will be taken over temporarily in open market investment account \$18,800,000 today and \$20,000,000 tomorrow. Have made sales therefrom to market of \$15,800,000 at 98 net and interest delivery on or before November 21. Any profit that may accrue from sale of these notes will be held in New York Suspense Account temporarily pending final consummation of the entire transaction. You will receive advice through regular channels of all details. CASE."

"Supplementing my telegram of today have sold to market from Open Market Account, delivery tomorrow, \$5,000,000 par value December 15, 1930-32 Treasury notes at 98 2/32 net and interest regular advices of which will be sent you. CASE."

The foregoing will, I think, give you a complete picture of the transaction. We are hoping it may be possible to make further sales from this account between now and the close of business Wednesday, November 21, 1928. In any event we shall be glad to keep you informed concerning the matter.

Very truly yours,

J. H. Case
J. H. CASE.
over

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

see letter 11/28/28
see letter 11/20/28

Please
Not an unwillingness to participate but because of their reserve position

③

Typed
AT BOARD MEETING
NOV 20 1928

This is not wise to
make a profit but
merely for protection
until the remaining
five million are
sold.

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARDDate November 19, 1928.To Mr. McIntosh

Subject:

From Mr. Eddy.324
333-1333
2-8405

There is quoted below for your information the suggested revision of the Open Market Investment Procedure of the System, recommended by the Governors' Conference, as amended and adopted by the Joint Conference of the Governors and Federal Reserve Agents on Friday November 16.

"(1) That the Open Market Investment Committee, which is now composed of five Governors, be enlarged so as to include the other seven Governors, making a Committee of twelve, provided that in case of the inability of any Governor to attend, an alternate shall be appointed by the Directors of his bank .

"(2) That the Committee of twelve shall select from its membership an Executive Committee to consist of five members, which shall carry into effect the policies from time to time determined by the full Committee and approved by the Federal Reserve Board.

"(3) That it shall be the function of the Open Market Investment Committee to consider, prepare and recommend plans with regard to the purchase or sale of securities in the open market for account of the Federal Reserve System or participating Federal reserve banks.

"(4) That the time, manner, character and volume of such purchases and sales shall be governed primarily with the view of accommodating commerce and business and with regard to their bearing upon the general credit situation.

"(5) That the meetings of the Open Market Investment Committee, which shall be called either by the Board or by the Executive Committee of the Open Market Investment Committee shall be held in Washington or at such other place as may be arranged by the Chairman of the Executive Committee of the Open Market Investment Committee and the Executive Officer of the Federal Reserve Board.

"(6) That the procedure at meetings of the Open Market Investment Committee shall be in the future as in the past, to wit: that the Committee shall consider and act upon the recommendations of the Executive Committee and shall then meet with the Federal Reserve Board to discuss those recommendations with members of the Board for such action as the Board may deem proper."

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

333-81

Date November 16, 1928.

To Mr. Cunningham

Subject: _____

From Mr. McClelland

2-8406
GPO

Open market

There is attached hereto a copy of the suggested revision of the Open Market Investment procedure of the Federal Reserve System, submitted by the Board's Committee, together with copies as amended by the Federal Reserve Agents and as recommended by the Governors' Conference.

Federal Reserve Agents.

(1) That the Open Market Investment Committee, as at present constituted, be discontinued.

(2) That a Committee to be known as The Open Market Policy Conference be set up with a representative from each of the twelve Federal reserve banks, the representative and/or an alternate to be designated annually by the Board of Directors of the bank.

(3) The Open Market Policy Conference to be under the chairmanship of the Governor of the Federal Reserve Board and to meet with the Federal Reserve Board at such times as may be arranged by or with the Federal Reserve Board.

(4) That it shall be the function of The Open Market Policy Conference to consider, prepare and recommend plans with regard to the purchase or sale of securities in the open market for account of the Federal Reserve System and participating Federal reserve banks.

(5) That the time, manner, character and volume of such purchases and sales shall be governed primarily with the view of accommodating commerce and business and with regard to their bearing upon the general credit situation.

(6) That for the purpose of executing such purchases and sales of securities for System account as may be approved by Federal reserve banks and the Federal Reserve Board there shall be constituted a committee to be known as The Open Market Executive Committee.

X-6175

SUGGESTED REVISION OF OPEN MARKET INVESTMENT
PROCEDURE.

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(2) That a Committee to be known as The Open Market Policy Conference be set up with a representative from each of the twelve Federal reserve banks, the representative to be designated by the Board of Directors of the bank.

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GOVERNORS

(1) That the Open Market Investment Committee, which is now composed of five Governors, be enlarged so as to include the other seven Governors, making a Committee of twelve, provided that in case of the inability of any Governor to attend, an alternate shall be appointed by the Directors of his bank.

(2) That the Committee of twelve shall select from its membership an Executive Committee to consist of five members, which shall carry into effect the policies from time to time determined by the full Committee and approved by the Federal Reserve Board.

(3) That it shall be the function of the Open Market Investment Committee to consider, prepare and recommend plans with regard to the purchase or sale of securities in the open market for account of the Federal Reserve System or participating Federal reserve banks.

(4) That the time, manner, character and volume of such purchases and sales shall be governed primarily with the view of accommodating commerce and business and with regard to their bearing upon the general credit situation.

(5) That the meetings of the Open Market Investment Committee, which shall be called either by the Board or by the Executive Committee of the Open Market Investment Committee shall be held in Washington ~~or~~ at such other place as may be arranged by the Chairman of the Executive Committee of the Open Market Investment Committee and the Governor of the Federal Reserve Board.

(6) That the procedure at meetings of the Open Market Investment Committee shall be in the future as in the past, to wit: that the Committee shall consider and act upon the recommendations of the Executive Committee and shall then meet with the Federal Reserve Board to discuss those recommendations with members of the Board before action by the Board.

November 14, 1928

333.-b-1
X-6175

11-10-28

Carded

SUGGESTED REVISION OF OPEN MARKET INVESTMENT
PROCEDURE.

(1) That the Open Market Investment Committee, as at present constituted, be discontinued.

(2) That a Committee to be known as The Open Market Policy Conference be set up with a representative from each of the twelve Federal reserve banks, the representative to be designated by the Board of Directors of the bank.

(3) The Open Market Policy Conference to be under the chairmanship of the Governor of the Federal Reserve Board and to meet with the Federal Reserve Board at such times as may be arranged by or with the Federal Reserve Board.

(4) That it shall be the function of The Open Market Policy Conference to consider, prepare and recommend plans with regard to the purchase or sale of securities in the open market for account of the Federal Reserve System and participating Federal reserve banks.

(5) That the time, manner, character and volume of such purchases and sales shall be governed primarily with the view of accommodating commerce and business and with regard to their bearing upon the general credit situation.

(6) That for the purpose of executing such purchases and sales of securities for System account as may be approved by Federal reserve banks and the Federal Reserve Board there shall be constituted a committee to be known as The Open Market Executive Committee.

November 10, 1928.

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

333-8-1

Date October 26, 1928

To All members of the Board
(Individually)

Subject: _____

From Mr. McClelland

o p o 2-8405

At the meeting this morning there was submitted the attached report of the Special Committee appointed at the meeting on October 2, of a suggested revision of the Open Market Investment procedure of the Federal Reserve System which is to be brought up consideration at a future meeting of the Board.

For your information there are also attached copies of the Board's resolutions of March 22, 1928 and its letter to all Federal Reserve Banks of April 7, 1928 setting forth the present procedure.

*Amended & Referred to
Govs. & Agents Conference*

AT BOARD MEETING

NOV 10 1928

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date October 26, 1928

To Mr. Cunningham

Subject: _____

From Mr. McClelland

GPO 2-8495

Guarded

At the meeting this morning there was submitted the attached report of the Special Committee appointed at the meeting on October 2, of a suggested revision of the Open Market Investment procedure of the Federal Reserve System which is to be brought up for consideration at a future meeting of the Board.

For your information there are also attached copies of the Board's resolutions of March 22, 1923 and its letter to all Federal Reserve Banks of April 7, 1923 setting forth the present procedure.

See memo 11/10/28

(1) That the Open Market Investment Committee, as at present constituted, be discontinued.

(2) That a Committee to be known as The Open Market Policy Conference be set up with a representative from each of the twelve Federal reserve banks, the representative to be designated by the Board of Directors of the bank.

(3) The Open Market Policy Conference to be under the chairmanship of the Governor of the Federal Reserve Board and to meet in Washington at such times as may be arranged by or with the Federal Reserve Board.

(4) That it shall be the function of The Open Market Policy Conference to consider, prepare and recommend plans with regard to the purchase or sale of securities in the open market for account of the Federal Reserve System and participating Federal reserve banks.

(5) That purchases and sales of securities for System account in the open market shall consist primarily of bankers acceptances.

(6) That the time, manner and volume of such purchases and sales shall be governed primarily with the view of accommodating commerce and business and with regard to their bearing upon the general credit situation.

(7) That for the purpose of executing such purchases and sales of securities for System account as may be approved by Federal reserve banks and the Federal Reserve Board there shall be constituted a committee to be known as The Open Market Executive Committee.

FEDERAL RESERVE BOARD

WASHINGTON

X-3689

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 7, 1923.

SUBJECT: Policy Governing Open Market Purchases by Federal Reserve Banks and the Administration thereof.

Dear Sir:

This is to advise you formally of the action of the Federal Reserve Board taken at its meeting of March 22nd, with respect to open market purchases by Federal Reserve Banks, and which was discussed at the recent conference between the Federal Reserve Board and the Governors of the Federal Reserve Banks.

The Board has adopted the following principles with respect to open market investment operations of the Federal Reserve Banks:

(1) That the time, manner, character and volume of open market investments purchased by Federal Reserve Banks be governed with primary regard to the accommodation of commerce and business, and to the effect of such purchases or sales on the general credit situation.

(2) That in making the selection of open market purchases, careful regard be always given to the bearing of purchases of United States Government securities, especially the short-dated issues, upon the market for such securities, and that open market purchases be primarily commercial investments, except that Treasury certificates be dealt in, as at present, under so-called "Repurchase" agreement.

In order to provide for the proper administration of the policy defined above, the Board rules that on and after April 1, 1923, the present Committee of Governors on Centralized Execution of Purchases and Sales of Government securities be discontinued, and be superseded by a new committee known as the Open Market Investment Committee for the Federal Reserve System, said committee to consist of five representatives from the Federal Reserve Banks and to be under the general supervision of the Federal Reserve Board; and that it be the duty of this committee to devise and recommend plans for the purchase, sale and distribution of the open market purchases of the Federal Reserve Banks in accordance with the above principles and such regulations as may from time to time be laid down by the Federal Reserve Board.

copy filed 4-7-23 also

-2-

X-3689

In accordance with the informal agreement made at the time of the last Governors' Conference, the membership of the Open Market Investment Committee for the Federal Reserve System, will be identical with the membership of the old Committee, as follows:

Federal Reserve Bank of Boston
Federal Reserve Bank of New York
Federal Reserve Bank of Philadelphia
Federal Reserve Bank of Cleveland
Federal Reserve Bank of Chicago

By order of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

To Governors of Federal Reserve Banks.
Copies to Agents.

X-4586

RESOLUTIONS APPROVED BY FEDERAL RESERVE BOARD AT
MEETING ON MARCH 22, 1923.

"Whereas the Federal Reserve Board, under the powers given it in Sections 13 and 14 of the Federal Reserve Act, has authority to limit and otherwise determine the securities and investments purchased by Federal reserve banks;

Whereas the Federal Reserve Board has never prescribed any limitation upon open market purchases by Federal reserve banks;

Whereas the amount, time, character, and manner of such purchases may exercise an important influence upon the money market;

Whereas an open market investment policy for the twelve banks composing the Federal reserve system is necessary in the interest of the maintenance of a good relationship between the discount and purchase operations of the Federal reserve banks and the general money market;

Whereas heavy investments in United States securities, particularly short-dated certificate issues, have occasioned embarrassment to the Treasury in ascertaining the true condition of the money and investment markets from time to time,

THEREFORE, Be It Resolved, That the Federal Reserve Board, in the exercise of its powers under the Federal Reserve Act, lay down and adopt the following principles with respect to open market investment operations of the Federal reserve banks, to-wit;

(1) That the time, manner, character, and volume of open market investments purchased by Federal reserve banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation.

(2) That in making the selection of open market purchases, careful regard be always given to the bearing of purchases of United States Government securities, especially the short-dated issues, upon the market for such securities, and that open market purchases be primarily commercial investments, except that Treasury certificates be dealt in, as at present, under so-called "Repurchase" agreement.

Be It Further Resolved, That on and after April 1, 1923, the present Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities be discontinued, and be superseded by a new committee known as the Open Market Investment Committee for the Federal Reserve System, said Committee to consist of five representatives from the reserve banks and to be under the general supervision of the Federal Reserve Board; and that it be the duty of this Committee to devise and recommend plans for the purchase, sale and distribution of the open market purchases of the Federal reserve banks in accordance with the above principles and such regulations as may from time to time be laid down by the Federal Reserve Board."

Copy filed 3-22-23 also

333-6-1

October 26, 1928.

Dear Mr. Case:

Governor Young has received and brought to the attention of the Federal Reserve Board your letter of October 24 with respect to the probable demand for Federal Reserve credit in the immediate future and the prospective situation in the money market.

Very truly yours,

(Signed) E. M. McClelland.

E. M. McClelland,
Assistant Secretary.

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

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
OCT 27 1928
FEDERAL RESERVE BOARD
335

October 26, 1928

NOV 2 1928
R.A.Y.

Dear Governor Young:

" Replying to your letter of yesterday, and confirming our conversation over the 'phone today, your interpretation of the final paragraph in my letter of October 10 (states exactly what I had in mind.

It seemed probable then that the increase in our bill holdings would not be accompanied by a corresponding increase in the demand for Reserve Bank credit, with the result that member bank indebtedness would be reduced. As the call money market is always first to reflect any such change, it seemed likely that call money rates would ease somewhat and that, as you have indicated, this would have a tendency to relieve the pressure on speculative credit.

2

The easier tendency in call money did develop, but there has been an apparent reversal during the last day or two. There seems to be no explanation in member bank indebtedness for the 8 per cent money of yesterday and today. The best explanation we have been able to hit upon is that there has been an active demand for new loans, and, as there appears to have been no corresponding increase in the supply from other sources, the New York City banks have had to provide most of the additional funds and have been willing to do so only at a fairly stiff price. Under present conditions, however, it hardly seems to us that an 8 per cent rate can be maintained more than temporarily. ¶

Very truly yours,

J.H. Case
J.H. CASE,
Deputy Governor.

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

Noted
AT BOARD MEETING
NOV 18 1928
[Signature]

166d

333-6-1

October 25, 1928

Dear Mr. Case:

Your letter of October 10, explaining in detail the autumn demand for bank credit and the manner in which that demand is being met, was acknowledged by me on October 12.

After my departure for the Southwest, my colleagues had some discussion regarding the last paragraph of your letter and inasmuch as they were not quite clear as to its meaning, have asked me to correspond with you further to see if it can not be clarified somewhat. Will you, therefore, let me have an amplification of this part of your letter so that I can bring it to the attention of the other members of the Board?

✓

If I understand the paragraph correctly, you desired to point out that our bill holdings were increasing so rapidly that discounts of member banks were beginning to decline and that if this situation continued, its principle effect would be a lowering of the call money rate; in other words, the pressure on speculative credit might be relieved to such an extent that an undesirable situation would develop. This would amount to a reversal of the policy which the System has been following since January and would be a result which I assume you and your associates would not care to have brought about at the present time because of the unusual activity in speculative credit. "

Yours very truly,

(Signed) R. A. Young

R. A. Young,
Governor.

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

Letter copied

see ans 10/26/28

RECEIVED
OCT 26 1928
U.S. DEPARTMENT OF THE TREASURY
FEDERAL GOVERNMENT

333

FEDERAL RESERVE BANK
OF NEW YORK

October 24, 1928.

Dear Governor Young:

As I stated to you over the telephone this morning, we are gradually melting down, by direct sales to the market, the remaining \$9,000,000 of the total of \$23,100,000 of short-term Government securities which we had acquired from one of our foreign correspondents under date of September 8, 1928. Offers now made us for \$5,500,000 of these securities have been accepted for delivery and payment October 26, 1928; so that there will remain but \$3,500,000 in this account. As you know, it was generally understood that we would temporarily carry these securities only until such time as they might be advantageously disposed of in the market.

You will be interested to know that the Federal Land & Intermediate Credit Bank has taken up from us and resold to the market a total of \$1,550,000 of the \$1,750,000 which we had purchased; so that we are now carrying but \$200,000 of these debentures due January 15, 1929.

The situation in the money market seems to be working out much in line with our expectations, as indicated in my letter of two weeks ago.) holdings have continued to increase without a corresponding increase in the total demand for Reserve Bank credit, member bank indebtedness has been reduced, and the call money market is temporarily easier.

10-10-28
Bill

It now appears that the average demand for Reserve Bank credit during the month of October will show somewhat less than the usual increase compared with August. Currency requirements have been running about the same as in previous years, but commercial borrowings have not shown so large an

see ans 10/26/28

Notes

FEDERAL RESERVE BANK OF NEW YORK

Governor Young

10/24/28.

increase as usual, possibly due to the relatively high level of such borrowings during the summer. At the present time the total amount of Reserve Bank credit outstanding is running somewhat over \$100,000,000 higher than the August average, and the peak of seasonal requirements, until the holidays, appears to have passed.

Bill holdings, however, are now more than \$200,000,000 higher than the average for August, and the average for the month of October will show a larger increase than in any previous year. Consequently member bank borrowings have declined to the lowest average level since May, both in New York City and for the country as a whole.

A comparison of the increase in our bill holdings with the increase in bills outstanding indicates that we have acquired all of the new bills that have been created and more, too. The additional bills we have purchased have come largely from foreign holdings, and there is at least a possibility that some of the proceeds have gone into "the street."

While the demand for loans for speculative purposes shows no sign of abating, it is encouraging to note that member banks in the main are using the additional funds they are receiving, to repay indebtedness rather than to increase their loans. The continued increase in brokers loans placed by New York City banks has not in any degree represented an increase in the loans for their own account. A part has been for the account of out-of-town banks, which, of course, is in part for the account of others, and most of the remainder has been for the account of customers of New York banks.

The total volume of member bank credit, which we have been inclined to accept as the criterion for our policy, has shown comparatively little increase recently, especially after allowance for the effect of purchases of new Treasury issues in September and October. However, the prospect seems to

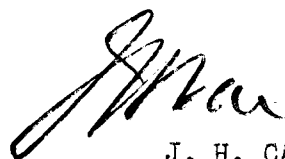
FEDERAL RESERVE BANK OF NEW YORK

Governor Young

10/24/28.

be for comfortable conditions in the call money market until December, except for the usual month-end tightening, and it seems likely that after the first of the year member bank indebtedness will be considerably below a billion dollars and money conditions will be easier still. In view of this situation, the figures on member bank credit will need close watching.^N

Very truly yours,



J. H. CASE,
Deputy Governor.

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

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date October 17, 1928.

To Mr. Platt

Subject: 323-6-1

From Mr. McClelland

2-8495

10/19/28

At the meeting of the Board yesterday following a discussion of the attached letter, you were requested to advise Mr. Case, that members of the Board are not quite clear as to the meaning of the last paragraph of his letter and wish that it could be clarified, one or two of the members having so interpreted it as to reach the conclusion that it involved an abandonment of the policy which the system has been following of keeping certain pressure on the money market. You were also requested to inquire as to the position of the directors of the Federal Reserve Bank of New York in the matter.

333-81

October 12, 1928

Dear Mr. Case:

This will acknowledge receipt of your very interesting letter of October 10, enclosing a tabulated statement showing the increase in the use of reserve bank credit for September and October. I laid the letter before the Board this morning and I believe that when I say we are pleased with the results so far, I am expressing the unanimous opinion of the Board. Of course, if anything unfortunate should later develop, it will have to be met with such resources as the System has.

Many thanks for passing the information on to the Board.

With kind personal regards, I am as ever

Yours sincerely,

(Signed) R. A. Young

R. A. Young,
Governor.

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

see letter 10/25/28

FOR SPECIAL CIRCULATION

PLEASE READ
Gov. Young ✓
Mr. Platt ✓
MPHY. INITIAL AND RETURN TO
Mr. Hamlin ✓
Mr. Miller ✓
Mr. James
Mr. Cunningham ✓
CREDITRY'S OFFICE
Mr. McIntosh ✓

FEDERAL RESERVE BANK

OF NEW YORK

8761 2 1100
OCT 12 1928
R.A.Y.

RECEIVED
OCT 12 1928
CREDITRY'S OFFICE
6 33

October 10, 1928

Dear Governor Young:

Carded

" We have been keeping current records of the demand for Reserve Bank credit this autumn, and of the manner in which that demand has been met. These records seem to indicate that the policy of supplying autumn credit requirements through bill purchases has so far been entirely successful.

You will recall a tabulation which we sent you some time ago showing the increase over August in the daily average amount of Reserve Bank credit in use, before and after adjustment for changes in the gold stock, and also the amount supplied by bill purchases and the amount supplied through discounts and securities, in each of the last four months of the past six years. A revised copy of this tabulation is enclosed, on which have been entered opposite the six year average, the figures for September 1928 and for the first week of October.

You will note that the average amount of Reserve Bank credit needed in September was practically identical with the average for the past six years, but that, even without a reduction in our buying rates, the amount of bills we acquired was 50 per cent larger. Of the remaining increase in Reserve Bank credit, a considerable part took the form of increased holdings of U.S. securities, largely explained by the Treasury overdrafts around the 15th; so that the average amount of member bank borrowing at the Reserve Banks for the month of September was practically the same as in August. This probably was an important factor in preventing a further rise in commercial borrowing rates during September, and the heavy buying of bills undoubtedly was mainly responsible for keeping bill rates low compared with other money rates, and made possible a much larger volume of financing through the bill market than would have been the case otherwise.

During the first week of October the increase over August in Reserve Bank credit outstanding has been somewhat below the six-year average, and the increase in bill holdings has reached such large proportions as to supply almost the entire amount. The security holdings of the System are somewhat above the August average, and discounts are slightly smaller.

It appears probable that we shall continue to have a large volume of bills offered to us during October and November and that our bill holdings may increase faster than the demand for Reserve Bank credit. If that is the case, discounts for member banks will tend to decline below the volume of August, and money rates are likely to be easier than in recent weeks. It would not be surprising if the principal effect of this situation were to appear in the call money market.))

Very truly yours,

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

J.H. Case
J.H. CASE,
Deputy Governor.

see ans 10/12/28

see memo 10/17/28
see ans 10/25/28

333-6-1

October 9, 1928.

Dear Mr. Case:

I brought your letter of October 8 to the attention of the Board this morning and the Board noted with approval the arrangements which you have under way to prevent the published statement of the system's holdings of Government securities showing an increase by reason of your taking over approximately forty million dollars of Treasury notes from a foreign correspondent.

Very truly yours,

(Signed) R. A. Young

R. A. Young,
Governor.

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

OK Kelly

FEDERAL RESERVE BANK
OF NEW YORK

(5)

RECEIVED
OCT 9 1928
333

October 8, 1928.

Dear Governor Young:

In re: Open Market Investment Account.

Carded

" As stated to you over the telephone this afternoon, we have received cable instructions from one of our foreign correspondents to convert into cash, on Thursday, October 11, 1928, \$40,200,000 - 3 1/2% Treasury notes due December 15, 1930-32, and to pay the proceeds into the market.

In order to consummate this program we have today arranged with the Treasury to sell to them, from the Open Market Investment Account, \$30,000,000 3 1/4% certificates due December 15, 1928, delivery to be made as follows:

\$15,000,000 - Thursday, October 11, 1928

15,000,000 - Monday, October 15, 1928.

As to the remaining \$10,000,000, we are hopeful of being able to dispose of this between now and October 17, so as not to show any increase in the Government security account on our published statement next week. As a matter of fact, we are today temporarily reducing the portfolio of this bank by \$2,500,000, being the net amount sold to another foreign correspondent for immediate delivery, which we are planning to replace on Thursday, October 11, by taking over \$2,500,000 Treasury notes from the \$10,000,000 which we have still to market. (You will be interested to know that the Federal Reserve Bank of St. Louis has today repurchased from the Open Market Investment Account \$5,000,000 - Fourth Liberty Loan 4 1/4% bonds which we have been holding temporarily in the account.)

Noted

X

see ans 10/9/28

FEDERAL RESERVE BANK OF NEW YORK

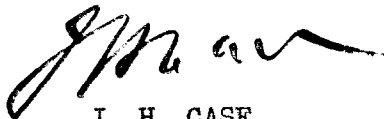
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Honorable R. A. Young

October 8, 1928.

If we are successful, as we hope to be, in effecting a sale of the remaining \$7,500,000 Treasury notes, we will have cleaned up this large order without in any way distorting our picture. //

Very truly yours,



J. H. CASE,
Deputy Governor.

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

383-61

September 29, 1928

Dear Mr. Case:

This will acknowledge receipt of your letter of September 26, enclosing copy of a letter addressed by you to the members of the Open Market Investment Committee. I have not as yet had an opportunity to refer this letter to my associates on the Board, but will do so promptly. I am sure they will agree with the conclusions which you have arrived at.

Thanking you for keeping the Board informed, I am

Yours very truly,

(Signed) R. A. Young

R. A. Young,
Governor.

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

FOR SPECIAL CIRCULATION

PLEASE READ PROMPTLY INITIAL AND RETURN TO SECRETARY'S OFFICE

Gov. Young Mr. Hamlin Mr. James Mr. McIntosh
 Mr. Platt Mr. Miller Mr. Cunningham

FEDERAL RESERVE BANK
OF NEW YORK

333-6-1

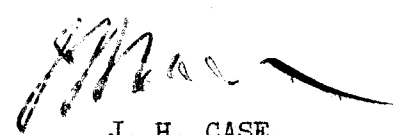
SEP 28 1928
OFFICE OF
THE GOVERNOR

September 26, 1928.

Dear Governor Young:

For the purpose of keeping the members of the Open Market Investment Committee currently informed as to the latest developments in our money market, I have today sent to them a letter in which I have undertaken to give them up-to-date information, and copy of which I am enclosing for your files.

Very truly yours,



J. H. CASE,
Acting Chairman,
Open Market Investment Committee.

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

Enclosure.

see ans 9/29/28

Similar letter sent to the other members of Open Market Inv. Com.:
Governor Harding Boston
Norris Philadelphia
Fancher Cleveland

C O P Y

④

September 26, 1928.

Dear Governor McDougal:

There seems no real occasion for a meeting of the Open Market Committee at this time and I am therefore writing this letter to keep the other members of the Committee currently informed as to the latest developments in the money market.

The renewal of speculation on a wide scale and the renewed increase in the volume of credit in recent weeks appear to have made it undesirable to consider buying securities for the Committee account. Business appears to be getting all the funds necessary at reasonable rates and no emergency situation has developed.

On September 15, we found it necessary to take over temporarily in our own account \$15,000,000 of short-term certificates which a foreign correspondent was selling but for which we could not find a market outside. We have not yet been able to dispose of these securities, nor can we do so in the present condition of the Government securities market. There is almost no market for large blocks of Governments. When the September 12 press statement appeared, we explained to the press that the increase in Governments represented a temporary taking over of securities from one of our agency accounts and not a purchase in the market. This explanation served to avoid a bullish interpretation of the increase.

We have had a good deal of discussion about the bill market, particularly at our directors meeting on September 13 when Governor Young and Mr. Cunningham were present and raised the question whether the bill rate should not be reduced to attract more bills. In response we prepared a memorandum for our directors meeting last week, a copy of which I enclose. The result was a decision to retain the present rates.

I am also enclosing a copy of a tabulation we have recently made showing the increase in Federal reserve credit usually required to finance autumn requirements. The most significant figures seem to be the following for the average amount of Federal reserve credit required in the last four months of the past six years:

2.

Governor McDougal.

9/26/28

COPY

	Increase in F. R. Credit from August after allowance for gold Movements	Amount Supplied through Bills Purchased	Balance met by Discounts or Securities
	(Millions	of	Dollars)
August	0	0	0
September	+ 89✓	+ 32	+ 57
October	+ 160	+ 83	+ 77
November	+ 205	+ 139	+ 65
December	+ 322	+ 181	+ 141
<hr/>			
September 1928 to date	+ 74✓	+ 31	+ 43

These figures appear to show that so far this autumn we are following closely the precedent of previous years. If we continue to do so it will only require about 35 million of discounts above the September average to meet October needs, and that increase need not disturb business. The December need due to Christmas currency is so largely temporary that banks are willing to borrow to meet it without increasing the pressure on the money market. Thus the October peak is the one likely to cause the maximum of strain and that should not be severe.

Moreover, it seems likely that this year we shall get the usual increase in bills. The prospects are for a considerable increase in the volume of bills created and under present money conditions there will probably be few buyers of bills outside the reserve banks to absorb the increase, so that we are likely to get most of the additions to the amount now outstanding. This being the case, it seems reasonable to believe that the seasonal requirements of business will be met without any further substantial firming of commercial money rates although it is always necessary to keep in mind that we may have to buy some short governments to carry out the program indicated above and I think we should be ready to do this on occasion without hesitation or delay.

I should be glad to hear from you as to the situation in your district and any thoughts or suggestions you may have.

Very truly yours,

J. H. CASE,
Acting Chairman,
Open Market Investment Committee.

Mr. J. B. McDougal,
Governor, Federal Reserve Bank of Chicago,
Chicago, Ill.

Enclosure.

④ ②

PROPOSAL FOR DISCRIMINATORY RATES FOR BILLS

The suggestion has been made that the Federal Reserve System should maintain its buying rate for bankers acceptances this autumn at a lower point than usual relative to other money rates and the discount rate. The objects of this proposal are: first, to encourage the creation of bankers acceptances and thus assist in making credit more readily available for the movement or storage of farm products and other goods at moderate rates; and second, to draw into the Federal Reserve System portfolios a larger than usual amount of acceptances; so that the increased autumn demands for Federal reserve credit may be met in this way rather than by additional borrowing, which would tend to tighten money conditions further. Two possible methods have been suggested of giving effect to this proposal.

1. That the buying rate for bills be reduced $1/4$ per cent from the present point so that 90-day bills would be purchased at $4 \frac{1}{4}$ per cent rather than $4 \frac{1}{2}$ per cent.
2. That the present rate of $4 \frac{1}{2}$ per cent on 90-day bills be maintained without increase during the autumn, when an increase of about $1/4$ of one per cent usually occurs, and that the Reserve System stand ready to buy bills freely. The rate is already lower, relative to other rates, than usual for this time of year.

Either one of these methods would serve to encourage the creation of bills and to bring a larger volume of bills into the Reserve System than normally.

It is recommended by the officers that the second proposal be followed, that is, that a $4 \frac{1}{2}$ per cent buying rate for 90-day bills be maintained and the Reserve System stand ready to take bills freely as has been done the past few weeks. This proposal seems preferable to lowering the

buying rate for bills for the following reasons:

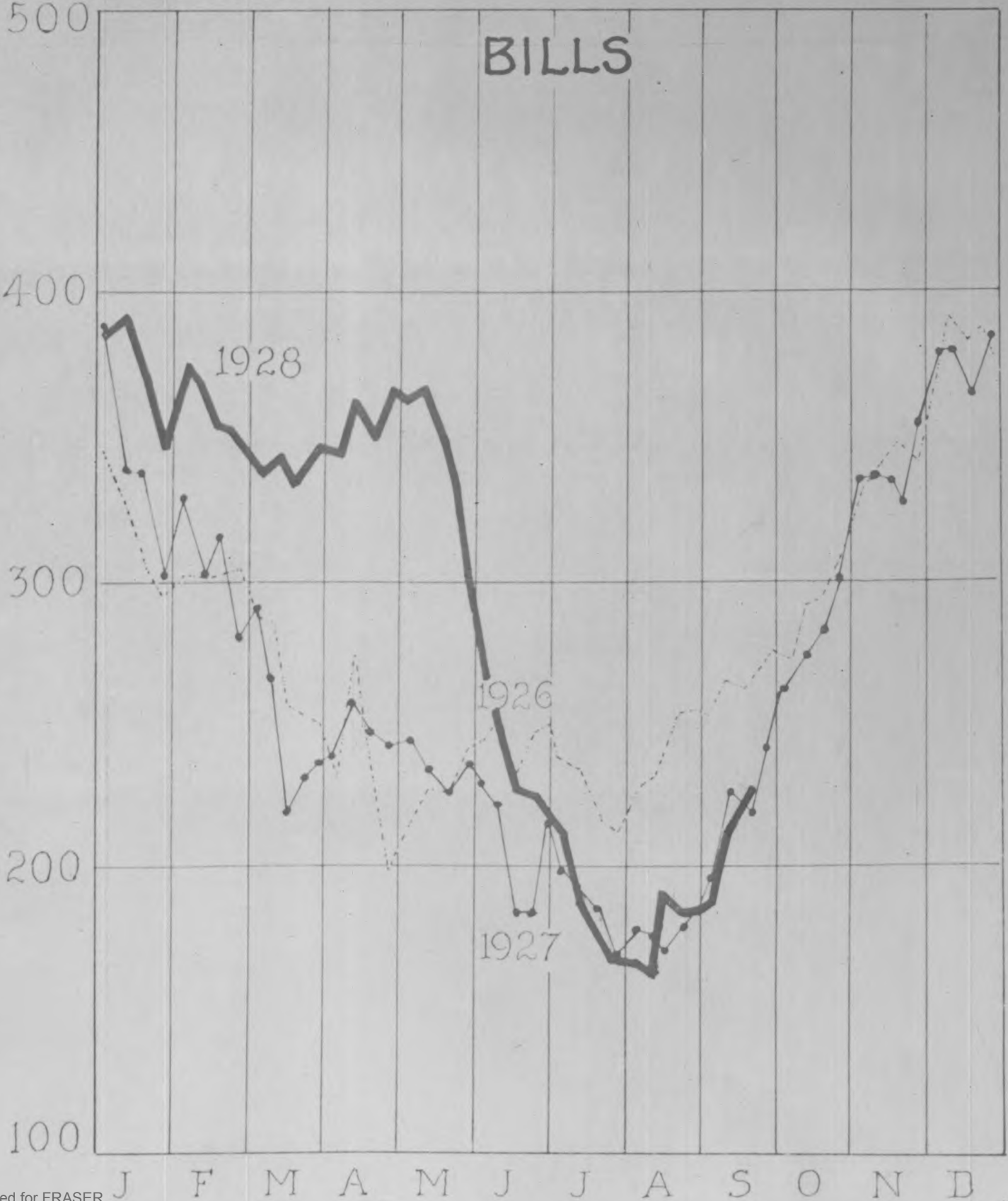
1. The lowering of the bill rate would attract wide-spread comment and probably encourage the increase in credit for speculative uses which has been resumed. The psychological effect of such action might be nearly as great as reducing the discount rate or buying securities.
2. A 4 1/2 per cent rate is low enough in relation to other rates to attract a large volume of financing into the acceptance market and we understand from dealers and others that with this rate the seasonal increase in bills is likely to be unusually large. It is doubtful whether a lower rate would bring out many additional bills.
3. It is probable that a 4 1/2 per cent rate will draw into the reserve banks a sufficient amount of bills so that the autumn requirements for Federal reserve credit will be met almost entirely through that channel unless unexpected demands arise.

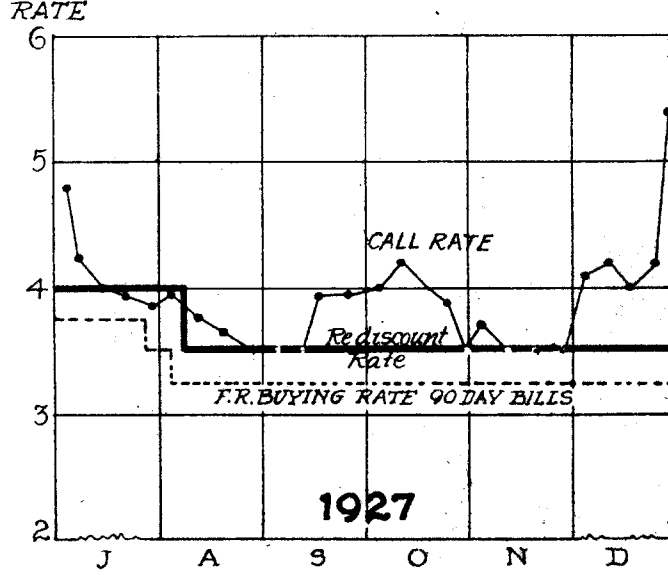
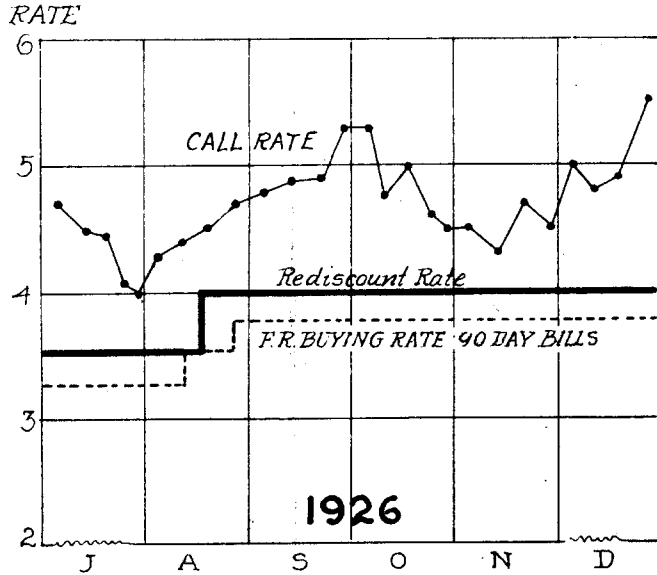
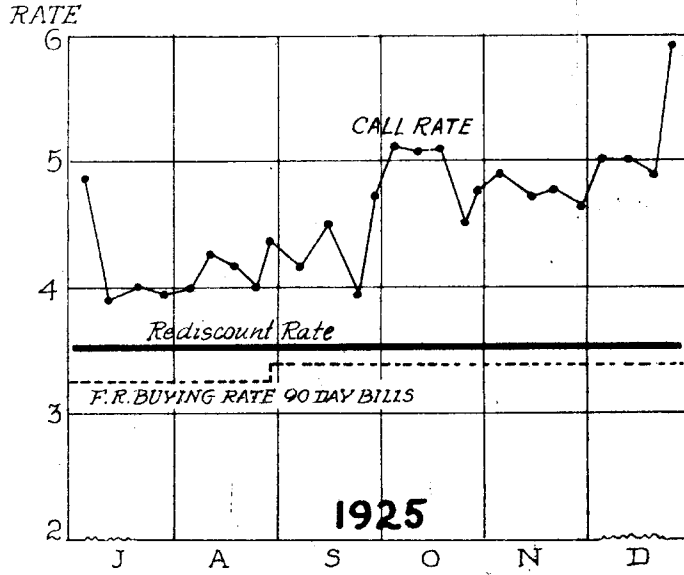
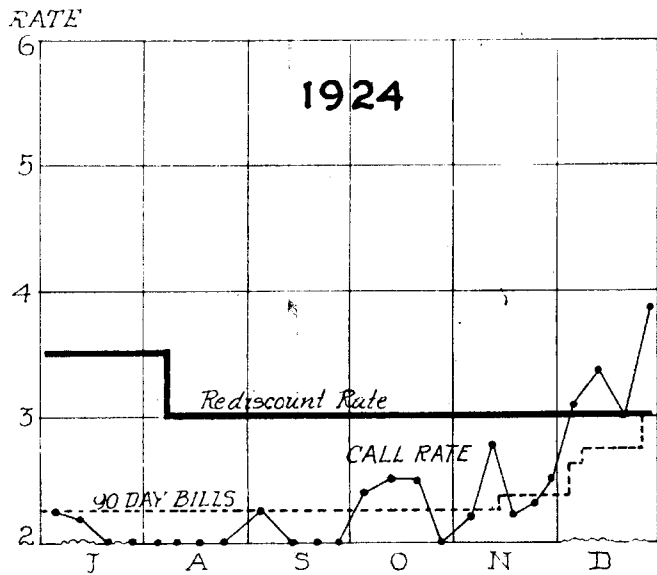
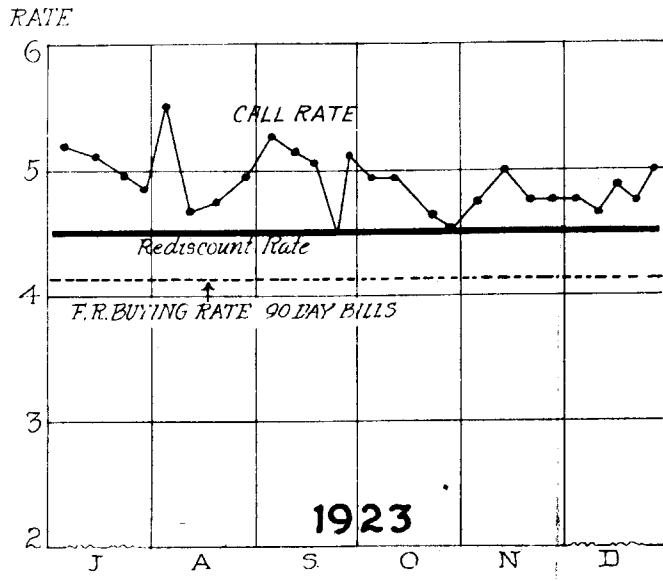
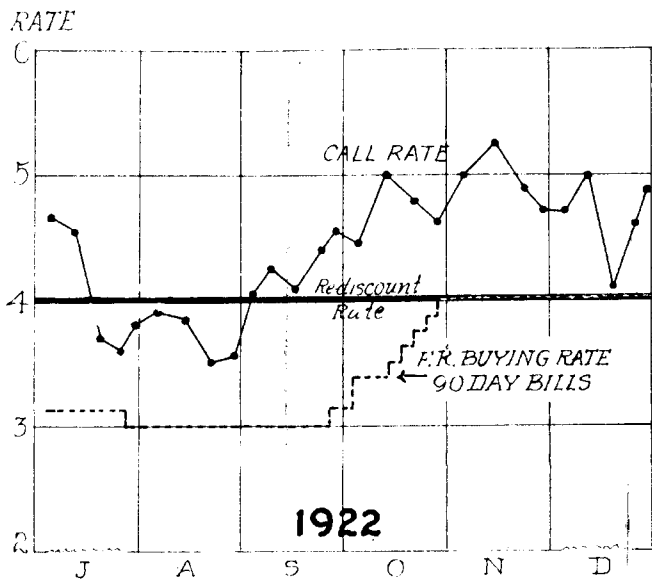
September 20, 1928.

Sp1647

Bill Holdings of All Federal Reserve Banks

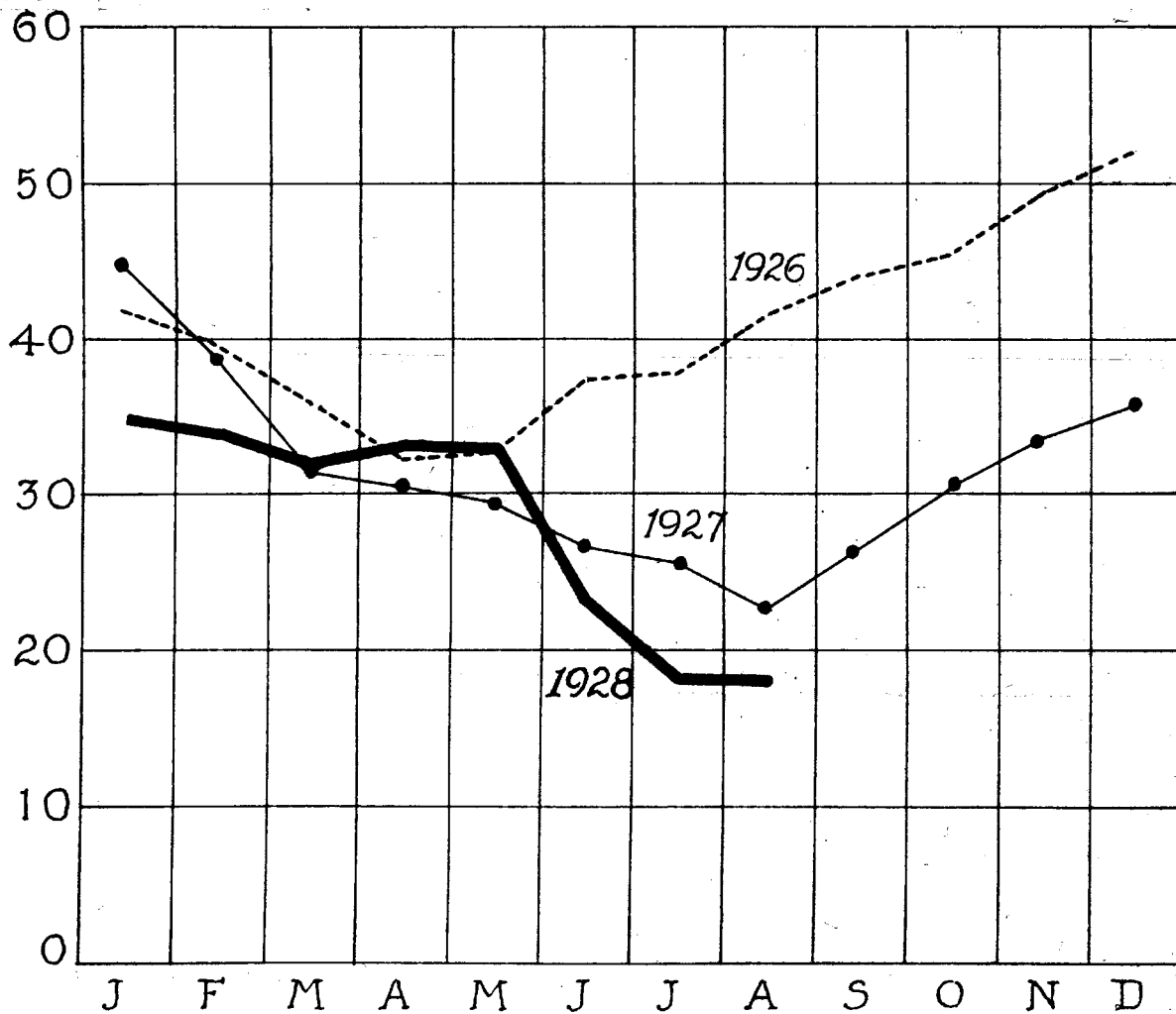
MILLIONS of DOLLARS





Sp. 1681

PER CENT.



Percentage of Total Bills Outstanding Held by Federal Reserve Banks.

INCREASE IN RESERVE BANK CREDIT

REQUIRED TO FINANCE AUTUMN REQUIREMENTS

(Monthly averages of daily figures; increases over August, in millions of dollars)

	<u>Actual Increase in F. R. Credit over August Average</u>	<u>Change in Gold Stock</u>	<u>Change in F. R. Credit if there had Been No Change in Gold</u>	<u>Amount F. R. Credit Supplied Through Bills Purchased</u>	<u>Amount F. R. Credit to be supplied through Discounts and Securities</u>
<u>1922</u>					
August					
September	+ 60	+ 22	+ 82	+ 51	+ 31
October	+ 132	+ 39	+ 171	+ 95	+ 76
November	+ 157	+ 54	+ 211	+ 101	+ 110
December	+ 251	+ 76	+ 327	+ 102	+ 235
<u>1923</u>					
August					
September	+ 45	+ 31	+ 76	= 3	+ 79
October	+ 73	+ 60	+ 133	+ 7	+ 126
November	+ 70	+ 90	+ 160	+ 85	+ 75
December	+ 122	+ 125	+ 247	+ 145	+ 102
<u>1924</u>					
August					
September	+ 94	+ 5	+ 99	+ 62	+ 37
October	+ 169	0	+ 169	+ 150	+ 19
November	+ 248	+ 2	+ 250	+ 238	+ 12
December	+ 384	+ 2	+ 386	+ 329	+ 57
<u>1925</u>					
August					
September	+ 72	+ 10	+ 82	+ 18	+ 64
October	+ 164	+ 19	+ 183	+ 89	+ 94
November	+ 197	+ 29	+ 226	+ 146	+ 80
December	+ 337	+ 32	+ 369	+ 162	+ 207
<u>1926</u>					
September	+ 67	+ 5	+ 72	+ 19	+ 53
October	+ 111	+ 8	+ 119	+ 49	+ 70
November	+ 112	+ 11	+ 123	+ 102	+ 21
December	+ 223	+ 14	+ 237	+ 140	+ 97
<u>1927</u>					
September	+ 117	+ 5	+ 122	+ 43	+ 79
October	+ 191	= 5	+ 186	+ 109	+ 77
November	+ 309	= 52	+ 257	+ 163	+ 94
December	+ 491	= 127	+ 364	+ 205	+ 189
<u>Average</u>					
<u>1922-1927</u>					
September	+ 76	+ 13	+ 89	+ 32	+ 57
October	+ 140	+ 20	+ 160	+ 83	+ 77
November	+ 182	+ 22	+ 205	+ 136	+ 65
December	+ 301	+ 20	+ 322	+ 161	+ 141

see: Revised Oct 10, 1927

FOR SPECIAL CIRCULATION

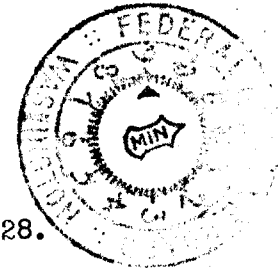
PLEASE READ IMMEDIATELY, INITIAL AND RETURN TO SECRETARY'S OFFICE

Gov. Young ✓ Mr. Hamlin ✓ Mr. James ✓ Mr. McIntosh ✓

FEDERAL RESERVE BANK OF PHILADELPHIA

925 CHESTNUT STREET

333-8-1



SEP - 5 1928

September 5, 1928.

*Read
circulate
Hall*

OFFICE OF THE
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE BANK

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

Dear Governor Young:

The first meeting of our Directors following the receipt of your
letter of August 20th in which you stated that the Board would be glad to
have the reaction of our Directors to the report of the Open Market Committee
and the qualified approval of the Federal Reserve Board, was held today.

With your letter the whole question of the condition of the money
market, member bank borrowings, etc., was submitted to the directors and dis-
cussed at length. The feeling that the policy of the System should be directed
to the helping of commerce and business is strongly held by our Board. They
agree that the additional credit required for meeting the usual fall demands
for money can well be met by the banks, member banks rediscounting with their
Federal Reserve Banks when necessary. In the case of emergency the policy of
buying bills and government securities would be approved of. They did not
say so, but I am strongly of the opinion they would not favor any increase
in the discount rate at present.

One member, a bank officer, recommended that the purchase of
bills and government securities be resorted to without waiting for an emergency.
He said bankers' bills were clogging the banks, and further felt that if we
put back the money we had taken out of the market this year, money would be

FEDERAL RESERVE BANK OF PHILADELPHIA

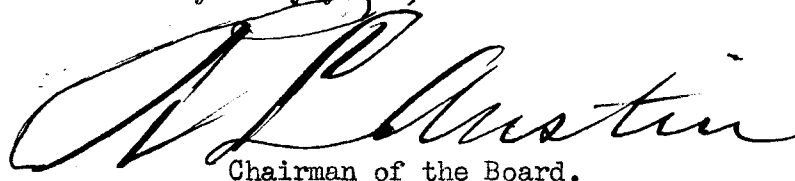
PAGE NO. 2 TO Hon. Roy A. Young, Governor,
Federal Reserve Board,
Washington, D.C.

9/5/28

cheap enough everywhere and he thought there would be no additional stimulation of speculation. How many of the Board agreed with this opinion I do not know.

As indicative of the feeling about the money market I think you would have been surprised to have heard the comments made regarding the increase of \$2,000,000. in the System's holdings of government securities, it being taken as a possible indication of ~~the~~ change in policy by the System.

Very truly yours,


Chairman of the Board.

FEDERAL RESERVE BANK OF CHICAGO 333-61

230 SOUTH LASALLE STREET

RECEIVED
 AUG 27 1928
 FEDERAL RESERVE BANK OF CHICAGO

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

R. A. Y.
 SEP 8 1928

Dear Governor Young:

At the regular meeting of our board of directors held today, report was made on the recent meeting of the Open Market Committee at Washington, and the matter was somewhat discussed. This subject was also presented to our Executive Committee at its meeting of last week, and I believe that Mr. McKay wrote you immediately following that meeting regarding the opinions expressed by the members present. All members of our board save one were present at today's meeting, and all were in substantial accord with the expressions of our executive committee as conveyed to you in Mr. McKay's letter of August 17.

The matter of a preferential rate on agricultural paper and also on bankers acceptances based on agricultural products effective during the crop moving season was also discussed. In this connection, it was stated that a canvass had been made of our leading Chicago banks in regard to the probable demands for crop moving purposes during the present season, and it was found that these banks generally expressed themselves as anticipating no unusually heavy demands for that purpose in this district this fall, and that such requirements could be amply met through the ordinary channel of rediscounting. In this connection, reference was made to the experience of the last several years covering the months of September, October, and November in each year. Member bank borrowings during that period increased as follows:

1922	\$31,000,000
1923	45,000,000
1924	11,000,000
1925	35,000,000
1926	47,000,000
1927	28,000,000

The consensus of opinion was that from the present outlook, and from the standpoint of this district, there is apparent sufficient reason to justify such preferential rate.

Very truly yours,

W. A. Heath
 Chairman

WAH HH

~~EX-11~~

333-6-1

R. A. Y.
AUG 25 1928

August 24, 1928

Dear Governor McDougal:

This will acknowledge receipt of your
letter of August 22nd.

I am very glad to have you express yourself as you have. Also am glad to learn that you do not expect unusual seasonal requirements for Federal reserve credit in your district this year. Minneapolis is having just the opposite experience and before the season is over, largely because of the price and the lack of export demand, their advances may run up to quite a substantial amount.

With kind personal regards, I am,

Yours very truly,

R. A. Young,
Governor.

Mr. J. B. McDougal, Governor,
Federal Reserve Bank,
Chicago, Illinois.

FEDERAL RESERVE BANK OF CHICAGO

333-61

230 SOUTH LA SALLE STREET

OFFICE OF THE GOVERNOR

CONFIDENTIAL

RECEIVED
AUG 25 1928
FEDERAL RESERVE BOARD

RECEIVED
AUG 25 1928
FEDERAL RESERVE BOARD

August 23, 1928

Mr. Eddy

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

Dear Governor Young:

Referring again to the prospective credit demands for crop-moving purposes, in mine to you of yesterday I stated that for a number of years such demands in this district had been moderate and had been met without difficulty.

I am not unmindful of the fact that you have at your elbow, or readily available, very complete information on the subject but even so I have thought you might be interested in a memorandum prepared here and of which a copy is enclosed, which discloses the fluctuations in member bank borrowings in the Chicago district and also throughout the System during the months of September, October, and November for a number of years back.

This also includes a statement of the relative amount of Federal reserve credit as a whole in use during the same period.

Very truly yours,

J. D. Morgan
Governor.

J-
enc.

48-18 50M 6-15-27 B-24756

FEDERAL RESERVE BANK OF CHICAGO

MEMORANDUM FOR

August 22, 1928.

Mr. McDougal

FROM

Trend of Member Bank Borrowings during
September, October and November.Mr. Olson

In reviewing member bank borrowings in the period from September 1st to December 1st during the year 1917 and subsequent years to and including 1927, the trend has in all years, with but three exceptions, been upward, the high point usually being reached on or about December 1st after which time the trend has usually been downward. This is true both in the case of the System as a whole and in the Chicago District.

The following tabulation indicates the net increase or decrease in member bank borrowings for the period referred to in the respective years, both for the System and the Chicago District:

	Member Bank Borrowings from			
	System		Federal Res. Bk. Chicago	
	(In Millions)			
1917	+	609	+	73
1918	+	386	-	30
1919	+	399	+	59
1920	+	31	+	17
1921	-	309	-	30
1922	+	245	+	31
1923	-	21	+	45
1924	-	53	+	11
1925	+	66	+	35
1926	+	19	+	47
1927	+	76	+	28

The relative status of Federal reserve credit as a whole in use during the period referred to for the respective years is set forth in the following tabulation, from which it is apparent that credit outstanding for the System as a whole increased in all of the years involved with the exception of 1920 and 1921:

	Earning Assets			
	System		Federal Res. Bk. Chicago	
	(In Millions)			
1917	+	671	+	64
1918	+	595	+	2
1919	+	575	+	119
1920	-	31	-	1
1921	-	297	-	41
1922	+	139	+	24
1923	+	85	+	40
1924	+	271	+	44
1925	+	226	+	43
1926	+	119	+	52
1927	+	321	+	70

FEDERAL RESERVE BANK OF PHILADELPHIA 333-8-1

925 CHESTNUT STREET

August 23 1928

RECEIVED
AUG 24 1928
OFFICE OF THE GOVERNOR
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT



R. A. Y.
AUG 24 1928

R. A. Y.
AUG 25 1928

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

Dear Governor Young -

Your letter of August 20th was duly received and laid before the executive committee of our board. (there will be no board meeting until September 5th) The report of the meeting of the Open Market Committee and your letter to Mr. Harrison were also placed before the committee and thoroughly discussed. The committee felt that it could not speak for the board in expressing an opinion about the action of the Open Market Committee and your qualified approval of the Committee's report, and directed that the whole matter be referred to the board at its next meeting.

I might say, however, that Messrs Reily and Sewall, the two directors besides myself present, approved of the conclusions of the Committee, that it would be unwise to make differential rates for the rediscount of agricultural paper or for bankers' bills drawn against shipments of farm products. They also felt that the purchase of securities in the open market should not be resorted to except in the case of an emergency. If you will pardon me for referring to it again, the committee expressed itself very strongly to the effect that the Board should make some kind of a statement as to the Federal Reserve policy.

Very truly yours,

[Handwritten Signature]
CHAIRMAN

FEDERAL RESERVE BANK OF CHICAGO

333-61

230 SOUTH LA SALLE STREET

RECEIVED
AUG 24 1928
FEDERAL RESERVE BANK OF CHICAGO

OFFICE OF THE GOVERNOR

August 22, 1928.

CONFIDENTIAL

K. A. Y.
AUG 24 1928

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

Dear Governor Young:

Yesterday upon my return from a short vacation I received an informal report from Mr. McKay in respect to the proceedings at the recent meeting of the Open Market Investment Committee with the Federal Reserve Board. I have also carefully read the report of the Open Market Investment Committee and the Board's letter of August 16th approving the report with some modifications.

Mr. McKay advised you under date of August 17th that in response to your request the report referred to was submitted to our Executive Committee last week, and also apprised you of the views of our Committee in relation thereto, and I am writing at this time to advise you that I am in full accord with the views as expressed.

Beyond the foregoing, I do not hesitate to express the opinion that the forthcoming demand for credit for crop moving purposes in so far as this district is concerned can and will be met without any serious difficulty. I should like to see this demand met through the process of rediscounting, and believe this method should be resorted to rather than through open market operations.

Speaking again for this district, I can say that over a period of years the credit demands for crop moving purposes have been moderate and have occasioned no difficulties whatever. Of course, this year's requirements may prove to be an exception, and therefore as a precautionary measure I think it is well that the Committee and the Board have prepared for action through open market operations if it should develop that extreme measures are either desirable or necessary.

Very truly yours,

J. A. Morgan
Governor.

HS.

see ans 8/24/28

*Letter available
with other Bd members*

3-1

August 21, 1928

Dear Governor Seay:

This will acknowledge receipt of your letter of August 20th enclosing a copy of your letter of same date to Mr. George L. Harrison, Acting Chairman of the Open Market Investment Committee. I have read your letter with a great deal of interest and I am circulating it with the other members of the Board today. We are very glad to have your frank expressions and hope that all other Federal reserve banks will take similar action and acquaint the Board with their views.

In fairness to the members of the open market committee I want to say that I am partly responsible for calling the meeting so early. It perhaps could have been called at a later date. However, I knew that Mr. James and myself would be the only two members of the Board on the job continuously for the next thirty days and I thought it well to make provision for some unforeseen emergency. The recommendation of the committee was not quite as formidable as it looks. In the discussion the Board had with the committee it was brought out very clearly that no member of the committee had any idea of buying Government securities for the present and that such procedure would only be resorted to as a last resort.

I cannot help but feel that the committee has functioned admirably since it has been in existence, but I have been wondering of late if the committee should not be enlarged to include all the Governors of all the reserve banks. I realize that this suggested set up has some practical difficulties because of the great distances some of the Governors would have to come. Nevertheless open market operations have ceased to be overnight transactions and now cover much longer periods.

I would appreciate it very much if you would write me confidentially your reaction to my proposal.

With kind personal regards, I am,

Very truly yours,

Mr. George J. Seay, Governor,
Federal Reserve Bank,
Richmond, Virginia.

R. A. Young,
Governor.

See memo 8/22/28

These articles are protected by copyright and have been removed.

The citations for the originals are:

Krecker, Preston S. "The Securities Markets" *Commerce and Finance*, August 22, 1928, p1764.

Price, Theo. H. "The Lookout in the Foretop." *Commerce and Finance*, August 22, 1928, pp1769-1770.

Temple, Alan H. "If I Were Running the Reserve Banks—." *Commerce and Finance*, August 22, 1928, pp1771.

"How One Independent Forestalls Chain Competition" *Commerce and Finance*, August 22, 1928, p 1772.

Mr Mc Clelland

333-8-1

FEDERAL RESERVE BANK
OF RICHMOND

R. A. Y.
AUG 24 1928

RECEIVED
AUG 28 1928
AUGUST 22, 1928
THE GOVERNOR

Dear Governor Young:

I have read with a great deal of interest your letter of the 21st. I, too, think that the Open Market Committee has functioned admirably during the course of its existence. The Committee has kept other Federal reserve banks fairly well informed of its proceedings by sending regularly reports of its minutes. Of course, I know that a good deal transpires at every meeting which is not committed to the record. The Committee has always invited expressions of opinion from other Federal reserve banks as to its actions and as to the situation which it was endeavoring to handle. Beyond all question, there have been very difficult situations, particularly in the last two years.

* 5

I think I am expressing the feeling of our bank when I say that we have felt that we should be in still more intimate touch with matters which were put up to and considered by the Committee. I think it is true to say that not all the governors outside of the Committee give a great deal of attention to the broad questions of country-wide credit and international credit, but in this bank we have always made something of a study of these questions and have endeavored to inform ourselves as fully as possible. It is my own opinion that it is impossible to properly conduct the affairs of any Federal reserve bank without taking into account credit conditions in the nation as a whole.

I believe the time has come when the System must consider the formulation of a definite policy in dealing with the open market and with credit at large, founded upon principle.

With my best personal regards, I am,

Yours sincerely,

GJS-CCP

GEO. J. STAY
GEO. J. STAY,
Governor.

Honorable R. A. Young, Governor,

Federal Reserve Board,

Washington, D. C.

Form No. 131

Office Correspondence

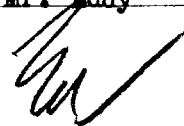
FEDERAL RESERVE
BOARD

Date August 21, 1928.

To All Members of the Board

Subject: 333-E-1

From Mr. Eddy



••• 2-8495

For your information:

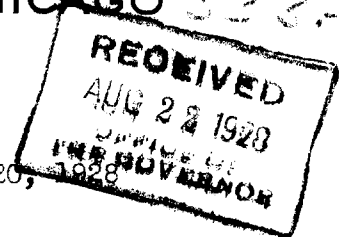
- Governor Young ✓
- Mr. Platt ✓
- Mr. Hamlin ✓
- Mr. Miller ✓
- Mr. James ✓
- Mr. Cunningham ✓
- Mr. McIntosh ✓

Please return to Secretary's office.

?

FEDERAL RESERVE BANK OF CHICAGO 323-101

230 SOUTH LA SALLE STREET



August 20, 1928

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

Dear Governor Young:

not in file
We are glad to have your letter of the 18th instant expressing the Board's views relative to the proposals discussed at the recent meeting of the Open Market Committee.

Governor McDougal is expected to return from his vacation tomorrow and the whole matter will have his attention at that time.

Very truly yours,

C. R. McKay
C. R. McKay,
Deputy Governor.

J-

*Mr. C. J. ...
Please
circulate
Young*

RECEIVED
AUG 21 1928
FEDERAL RESERVE BANK
OF ST. LOUIS

333.

FEDERAL RESERVE BANK
OF RICHMOND

August 20, 1928.

Dear Governor Young:

Carded

We today received from the Open Market Investment Committee the customary report of its proceedings at its last meeting on August 13. As a matter of interest, I am sending you a copy of my comments upon the report, giving the position of our bank.

With kind regards,

Very truly yours,

GJS-CCP

1 Encl.

G. J. Seay
GEO. J. SEAY,
Governor.

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

see ans 8/21/28

FEDERAL RESERVE BANK OF RICHMOND

August 20, 1928.

Mr. George L. Harrison, Acting Chairman,
Open Market Investment Committee,
Federal Reserve Bank of New York,
New York City.

Dear Mr. Harrison:

We have received from Mr. Mattsson, Secretary of the Open Market Investment Committee, a confidential report of the last meeting of that Committee, which took place on August 13.

I am in very firm agreement with the opinion expressed by the Federal Reserve Board, as set forth in the minutes of your Committee meeting, to the effect that no purchase of government securities should be made by the Committee except as a last resort, which I take to mean under conditions radically different from those which now exist, and only in case credit for business purposes could not be obtained except at rates materially higher than those which now prevail. It does not appear to be open to question that any credit injected into the market by the Federal Reserve System would be seized upon for other than business purposes if it were possible to obtain it. My own opinion is identical with that expressed in the August circular of the National City Bank of New York, which states that the only absolutely effective check upon credit expansion is by making credit sufficiently costly to all borrowers.

It may be desirable that the Committee should have authority to purchase government securities in a limited amount, which the Board has fixed at \$100,000,000, and that in extreme emergency this power should be exercised. I have very grave doubts whether it should be exercised in any event, and whether the situation should not be made to correct itself through whatever operations the member banks may feel called upon to take. The initiative should be in their hands and should not be taken by the Federal Reserve System in the present situation. Our directors are on record that this bank should not only not purchase government securities but that it should sell those which it has. When that decision was taken by our directors, our holdings of governments was considerably larger. They were sold through the Committee until at the present time our holdings are extremely insignificant, being little above \$3,000,000. Until that position is altered by our directors, this bank will not participate in any purchase of government securities.

Mr. Geo. L. Harrison, Acting Chairman,
Open Market Investment Committee, Pg.2.

August 20, 1928.

Nobody can contend that business in the aggregate has been hurt by current high rates for money because business has improved. There are or may be complaints from individuals and individuals may feel it to some extent. As for business at large being hurt (big business being represented by the corporations), according to the best information available, it has tremendously aggravated the present situation by lending in the market for the purpose of carrying securities. Business should come into court with clean hands before it pleads for lower interest rates.

We are prepared to admit that the situation is an extremely perplexing one, but to my way of thinking the Federal Reserve System has been dragged into the situation against its will, and those who have dragged it into that position should lie in the bed which they have made for themselves. The public and the banks at large seem willing to take any but the perfectly natural and logical course to relieve the credit situation, and that is by liquidation of credit in the same direction in which such huge amounts of credit were absorbed. There is no other real cure for the situation, and I think we should recognize it, and the very most we should do is to endeavor to ameliorate too great extremes.

I note with very keen interest that we were called upon to take over acceptances for the account of certain foreign banks, and that we may even be called upon to take over government securities for such banks. That is highly regrettable, although we may not be able to avoid it.

Our position in plain is that if more credit is needed for business this fall, the situation should remain such as to compel its release by those who have absorbed credit for other than business purposes rather than by putting more Federal reserve funds into the market, which while it might have a temporary effect of easing interest rates, if we are to believe the evidences of our senses, would almost certainly have the effect of stimulating the activities of those who have been responsible for using credit in huge amounts, and thus contribute to its further absorption in the same direction.

I will thank you to make these views known to the Committee on behalf of our bank.

Very truly yours,

GJS-CCP

(Signed) GEO. J. SEAY,
Governor.

333-8-1

August 20, 1928

Dear Mr. Austin:

This will acknowledge receipt of your letter of August 17th.

I assume that by this time you have received the complete report of the open market committee and also my letter to Mr. Harrison. 8/16/28
 You will observe that in both the report of the open market committee and the reply of the Board that the purchasing of Government securities is to be a last resort. In that, I think, we are all in agreement.

I agree with you that it would be highly desirable for the banks to borrow on rediscounts for reasonable requirements. If the member banks lend conservatively to industry and commerce to take care of the reasonable requirements and at reasonable rates I do not think that we will have anything to be concerned about even though our rediscounts should go up three or four hundred million. If, however, banks are reluctant to go in debt for such purposes and there is a further tightening of credit for productive enterprise or the orderly marketing of our agricultural products I believe the System should do what it can to relieve the situation. There are several possible ways of relieving the market without buying Government securities. Because of an experience I had in the Northwest in 1919 about issuing statements I hesitate about doing so at this time. Statements are usually misunderstood.

There are two explanations of the drop in the call rate last week to 4-1/8 percent. One is that about fifty million was put into the market, thirty-three million through a temporary transaction with the Government, three million in earmarked gold which was purchased by the New York bank from a foreign correspondent and fourteen millions in bills which were taken over by the New York bank from a foreign correspondent. While it is true that this put fifty million in the market I am rather inclined to believe that if it got in the hands of the large member banks that the proceeds would have been used largely to reduce their indebtedness at the Federal reserve banks rather than to increase their commitments in the call money market. The other explanation is that many of the banks in the agricultural and live stock sections have for some time past participated in the time money market in New York. Much of that paper is maturing now and those banks, knowing that they will need the funds within the next thirty or sixty days have instructed their

see memo 9/5/28
 see memo 8/23/28

-2-

correspondents to place the money on call. In addition the brokers want to play safe for the next six months and are anxious to put out time obligations rather than call obligations. This results in a shortage of time money and a surplus of call money. Such situations usually adjust themselves in time and today we have a call rate of approximately what the time rate is.

The Board would be very glad to have the reaction of your directors to the report of the open market committee and the qualified approval of the Federal Reserve Board.

With kind personal regards, I am,

Very truly yours,

R. A. Young,
Governor.

Mr. R. L. Austin, Chairman,
Federal Reserve Bank,
Philadelphia, Pennsylvania.

FEDERAL RESERVE BANK OF PHILADELPHIA

925 CHESTNUT STREET

333-8-1

August 17, 1928

OFFICE OF THE
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT

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

Dear Governor Young -

Carded

R. A. Y.
AUG 20 1928

Governor Norris made a report to us of what took place at the recent meeting of the open market committee; we were much interested in what was said about the possible operation of the committee in the near future, though he stated that the committee had not determined whether or not, in case the business community should have any difficulty in obtaining the credit it needed, the policy would be to ^{let it} get it from the member banks, even if they have to increase their borrowings from their Federal reserve banks, or, put additional Federal reserve credit in the market by purchasing Government securities.

If the attempt to relieve the market is made in the latter way, additional credit will have to filter through New York to the country, the movement might be slow, and some of the credit might stay in New York and so not serve the purpose intended. Would it not be much better to encourage the banks to make the necessary advances and loans, even if they have to increase their borrowings from their Federal reserve banks? Such additional use of Federal reserve credit would not require any explanation, it would be well understood and be approved.

People here are much mystified about the drop in call money yesterday, and ask us to explain it; I wish I could. I can only guess

see ans 8/20/28

FEDERAL RESERVE BANK OF PHILADELPHIA

PAGE NO. TO

that there is much that is artificial about the situation, and that neither the high rate or the low rate, one or the other does not reflect the actual condition . Questions are also being asked about the increase in our bills bought, as shown in the last statement. That very easily can be explained; do you not think it would be much better to make a frank statement about it rather than have the people guessing as to what it means, have we changed our policy, are we going to put money in the market by resuming open market purchases, etc.

Very truly yours,



Chairman

333.-1.1

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

August 17, 1928

Dear Mr. Cunningham:

I was mighty glad to get your letter of August 11, expressing your views relative to the present situation. We had an open market committee meeting last Monday and after four days of discussion took action on the recommendation of the committee. I am sending herewith a copy of my letter to Mr. Harrison. The Board was in unanimous agreement with this letter with the exception of the sentence reading, "With this understanding, the Board approves the purchase of Government securities by the committee but limits the amount to \$100,000,000". This resulted in a vote of three to two.]*

I know this is not in agreement with the thoughts contained in your letter, but for our record I quoted an excerpt from your letter which will explain your stand and I also inserted in the record a telegram from Mr. Hamlin.

You will observe from my letter to Mr. Harrison that we strongly urge the purchase of bills with the possible resort to the Government bond market as a final expedient. I feel reasonably sure that the open market committee has the same views and I therefore do not look for any increase in the System's Government bond holdings for the present at least.

For the past five years it has taken between \$100,000,000 and \$200,000,000 of Federal reserve credit to handle the crops. Because of the position of the banks, their already heavy indebtedness, and the further fact that dropping agricultural prices may prompt many producers to hold, it would not surprise me if \$300,000,000 or more were needed this fall. If the commercial banks make these advances freely and at reasonable rates, I know of no reason why we should not accommodate member banks to this additional amount without hesitancy. If, however, the banks are reluctant to borrow from the Federal reserve banks, such attitude on their part would result in unreasonable rates to business and industry, and in that event I believe we should do what we can to reduce the borrowings of the banks by operating first through the bill market and, as a last resort, through the Government bond market.

When the open market investment committee was here we discussed discount rates, but it seemed to be the unanimous opinion that it would not be advisable to reduce rates at this time, although the members of the committee had no objection to the four banks in the agricultural sections continuing to maintain a 4-1/2% rate; in fact, they expressed the view that from the standpoint of the System, it would be highly desirable if the 4-1/2% rate could be maintained by those banks. From information which I have received in a circuitous way, I am inclined to believe that Minneapolis and Kansas City will

-2-

attempt to hold out. Dallas desires to maintain a 4-1/2% rate but may be compelled to go to 5%. I have had no information on the situation in San Francisco.

I was not altogether sold on the 5% rate at Chicago and so expressed myself at the time, although had I been in Washington, I probably would have respected the judgment of the directors and approved the rate. My objection to the Chicago rate increase was that there might be a reaction from business. That reaction has developed and the newspapers are pretty severe in their criticism.

There are many other factors in the situation that may result in the strain not being as bad as we now anticipate. I am not going into all the details, but will mention one thing that has developed. Foreign exchanges are dropping and some of them have already reached the gold import point. However, foreign banks of issue have large credits in this country and they are supporting the exchanges by selling dollars. That means that as they sell dollars we take over their bills or Government securities and by such action put money into the market. Ten or more millions have already been put into the market by this procedure.

I was glad to learn that you are feeling a little better and hope your condition will continue to improve. With kind personal regards, I am

Yours sincerely,



R. A. Young,
Governor.

Mr. E. H. Cunningham,
R. F. D. Route #5,
Cresco, Iowa.

FOR SPECIAL CIRCULATION
 PLEASE READ BY INITIAL AND RETURN TO SECRETARY'S OFFICE
 Gov. Young ✓ Mr. Hamilton ✓ Mr. James ✓ Mr. [unclear] ✓
 Mr. [unclear] ✓ Mr. Miller ✓ Mr. Cunningham ✓
FEDERAL RESERVE BANK OF CHICAGO
 230 SOUTH LA SALLE STREET

RECEIVED
 AUG 20 1928
 DEPARTMENT OF THE TREASURY
 335
 Absent
 [Signature]

August 17, 1928

Mr. Roy O. Young, Governor
 Federal Reserve Board
 Washington, D. C.

Dear Governor Young:

Carded
8/16/28 not in file

In response to your request for an expression of opinion of our directors regarding the recommendations of the Open Market Committee at its meeting in Washington on the 13th instant, these recommendations were submitted to our Executive Committee this morning, two of our directors being present.

The opinion expressed was that no money should be released to the market under the present condition of the money market and that only in the case of real emergency should any action be taken by the Committee. This, I understand, is in accordance with the report of the Open Market Committee, as modified and approved by the Federal Reserve Board.

With regard to the demand for credit for crop-moving purposes this fall, very little concern is felt as to the ability of the member banks to supply this demand, even if it should be greater than usual, as it can be met by rediscounting with the Federal reserve banks. The experience of the past few years has been that credit demands for crop-moving purposes in this district have had only a moderate effect on the credit situation and at the present time there is no indication of any unusual demand this fall. We shall watch the situation closely and will advise you if there appears to be any probability of an unusual demand for this purpose.

Very truly yours,

C. R. McKay
 C. R. McKay,
 Deputy Governor.

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see letter 8/24/28
see letter 8/22/28

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333-81

August 16, 1928

Dear Mr. Harrison:

✓
WARDED

See 333-81
8-13-28

The Board has reviewed carefully the report of the Open Market Investment Committee and its recommendations of August 13, and has also considered the verbal discussion which took place during the meeting, and it is in agreement with the Committee that the seasonal requirements of credit will probably develop a strain upon the future credit situation which may react unfavorably upon commerce and industry, and that if such a situation should develop, the System should take some action to relieve the strain.

*

The Board would not care to agree to the purchase of Government securities, except as a last resort. We understand from the discussion had with your committee that you favor easing through the bill market, if possible, and through the Government security market only if unavoidable. With this understanding, the Board approves the purchase of Government securities by the committee but limits the amount to \$100,000,000. If a situation should develop which will require reconsideration, the Board will be glad to meet the committee at any time for that purpose.

*

Very truly yours,

R. A. Young,
Governor

Mr. George L. Harrison, Acting Chairman,
Open Market Investment Committee,
c/o Federal Reserve Bank,
New York, N. Y.

copy filed 333.31 - meeting 8/13/28

3

1928

Dear Mr. Harrison:

The Board has reviewed carefully the report of the Open Market Investment Committee and its recommendations of August 13, and has also considered the verbal discussion which took place during the meeting, and it is in agreement with the Committee that the seasonal requirements of credit will probably develop a strain upon the future credit situation which may react unfavorably upon commerce and industry, and that if such a situation should develop, the System should take some action to relieve the strain.

~~The Board believes that the publication of any substantial increase in the holdings of United States securities at this time might be misinterpreted by the public and used to advantage by those who are speculatively inclined and would not care to agree to the purchase of Government securities, except as a last resort.~~ We understand from the discussion had with your committee that you favor easing through the bill market, if possible, and through the Government security market only if unavoidable. With this understanding, the Board approves the purchase of Government securities by the committee but limits the amount to \$100,000,000 ~~at this time~~. If a situation should develop which will require reconsideration, the Board will be glad to meet the committee at any time for that purpose.

Approved as amended
AT BOARD MEETING
SEP 16 1928

Draft

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

August 15, 1928

Dear Mr. Harrison:

The Board has reviewed carefully the report of the Open Market Investment Committee and its recommendations of August 13, and has also considered the verbal discussion which took place during the meeting, and it is in agreement with the Committee that the seasonal requirements of credit will probably develop a strain upon the future credit situation which may react unfavorably upon commerce and industry, and that if such a situation should develop, the System should take some action to relieve the strain.

However, the discussion brought out so many factors upon which definite information is lacking, that the Board believes another review should be made ^{at a future} ~~at a future~~ date before arriving at any definite conclusions. It realizes that some unusual demand may come from some foreign bank of issue to dispose of Government bonds. Under these circumstances, if the market will not absorb the bonds except at unreasonable prices, the Board would have no objection to the Committee taking them over, ~~compensating~~

It would be appreciated very much if more consideration could be given to the following for relieving the credit strain if it does develop:

1. The purchase of bills.
2. Possible reduction of rate to accumulate bills if the present rate will not permit accumulation.
3. Possible preferential rate on crop-moving paper (briefly, any note, draft or bill of exchange, the proceeds of which have been or are to be used for the orderly and systematic distribution of crops)
4. Possible preference on all eligible paper other than 15-day collateral notes.
5. Possible relief through the purchase of exchange.

The reaction of your directors and the other members of the Committee to these suggestions will be appreciated.

Yours very truly,

Mr. Geo. L. Harrison
Acting Chairman,
Open Market Investment Committee
New York City, N. Y.

R. A. Young,
Governor.

Submitted by Governor

AT BOARD MEETING

AUG 15 1928

Mr. Platt

Having given consideration to the report and recommendations of the Open Market Investment Committee the Board agrees that some action may be necessary as the usual autumn demand develops for additional credit for the movement of the staple agricultural crops.)

The Board understands that the committee does not favor the purchase of Government securities, unless offered by foreign central banks, until other methods of providing additional credit have been fully tried, and

~~with this understanding the Board approves the recommendation of the committee to the extent of authorizing the purchase of not to exceed \$100,000,000 of Government securities - the authority not to be used beyond such offers as may be made from foreign account, until efforts have been made to accumulate additional bills domestic or foreign. The Board believes some reduction in the buying rates for bills should be given a fair trial, and wishes consideration to be given to the practicability of a separate classification of bills drawn for crop moving purposes, or to a separate classification of all bills drawn after a given date, as for instance August 1st or September 1st.~~

Amended

Submitted by Mr. Platt

AT BOARD MEETING

OCT 15 1928



The Board is ~~unwilling~~ at this time to authorize
~~the~~ willing to authorize such purchases
of government securities as may be offered
from foreign account, but is ~~not~~ willing
at this time to authorize further purchases
go further. The Board believes efforts should
be made to accumulate additional bills
domestic or foreign, and ~~in~~ to that
end believes some reduction in the
buying rates for bills should be given
a fair trial.

(amendment)

Mr. James stated that he is in hearty sympathy with the result sought to be accomplished by Mr. Miller's suggestion but that in lieu thereof he wished to suggest that this result could be better obtained if the Board would advise the Federal Reserve banks that it stands ready to approve buying rates for bankers acceptances and trade bills, regardless of origin, from one-half of one per cent to one per cent below the rate for other classes of paper. Mr. James stated his belief that that should be the method of action by the Federal Reserve System.

Aug. 15 - Mr. James amends above to apply only to new bills, drawn after some given date.

Submitted

AT BOARD MEETING

AUG 13 1928

(H)

CIRCULAR LETTER

August , 1928.

SUBJECT: Special Rates on Seasonal Crop Marketing Paper.

Dear Sir:

Prior to 1918 there were in effect at some of the Federal Reserve Banks special rates of rediscount on so-called "commodity paper". Lower rates of rediscount for such classes of paper were fixed by the Federal Reserve Banks and approved by the Federal Reserve Board with a view of meeting the seasonal demands for credit facilities in the crop producing districts.

The Federal Reserve Board believes that the revival of this practice will be especially helpful during the forthcoming crop moving period and accordingly has defined a special class of paper growing out of the movement and marketing of crops which, for convenience, will be called "Seasonal Crop Marketing Paper" and as to which the Federal Reserve Board stands ready to approve a rediscount rate of from one-half of one per cent to one per cent below the rate on other classes of paper, with a view of adjusting the present rate structure so as to facilitate seasonal accommodation to commerce and business.

The Board's definition of "Seasonal Crop Marketing Paper" and the conditions of eligibility applicable to such paper are as follows:

Definition. Seasonal Crop Marketing Paper is defined as a negotiable note, draft, bill of exchange or bankers' acceptance arising out of the marketing of agricultural products produced during the current year or the proceeds of which have been or are to be used to finance the marketing of such products or the carrying of such products pending orderly marketing.

"Notes, drafts, bills of exchange or bankers' acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to be included within the above definition if -

Submitted
AT BOARD MEETING
AUG 13 1928

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"(1) The proceeds thereof have been or are to be used by such association in making payments or advances to any members thereof on account of agricultural products produced during the current year and delivered by such members to the association; or

"(2) The proceeds thereof have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparing for market or marketing of any agricultural product produced during the current year and handled by such association for any of its members; or

"(3) Such paper otherwise complies with the above definition.

Eligibility. To be eligible for rediscount at the special rate authorized to be established for seasonal crop marketing paper, such a note, draft or bill of exchange must also:

"(1) Be secured by shipping documents or a warehouse, terminal, or other similar receipt covering readily marketable, nonperishable, agricultural products produced during the current year and comply with the requirements of the Federal Reserve Bank as to insurance.

"(2) Comply with the respective sections of Regulation A, Series 1928, applicable to it; and

"(3) Be a note, draft, or bill of exchange on which the rate of interest or discount (including commissions) charged the borrower, does not exceed 6% per annum.

"Paper which is issued or drawn or the proceeds of which have been or are to be used for speculative holding of agricultural products as distinguished from the carrying of agricultural products pending the orderly marketing thereof is not eligible for rediscount."

In authorizing special rates of rediscount pursuant to this letter, it should be understood that this is for seasonal crop marketing purposes only and such authority will be withdrawn at the conclusion of the forthcoming crop marketing period.

The Federal Reserve Board is prepared to give prompt approval to special seasonal rates for seasonal crop marketing paper and requests the several Federal Reserve Banks to give immediate consideration to the advisability of establishing such seasonal rates in time to be of assistance during the forthcoming crop marketing period. Prompt advice as to the attitude of the respective Federal Reserve Banks toward such special rates on seasonal crop marketing paper is desired.

By Order of the Federal Reserve Board.

Walter L. Eddy
Secretary

Treasury Department

Telegraph Office

WESTERN UNION TELEGRAM

2-3786

16W FN 119 GOVT COLLECT

Submitted

AT BOARD MEETING

AUG 16 1928

333-810

TDNB MATTAPOISETT MASS AUG 15 1928 936PM

HON EDMUND PLATT DEPUTY GOVERNOR FEDERAL RESERVE BOARD

(Personal)

Filed 333-813-28
WASHN

ANSWERING YOUR TELEPHONE MESSAGE I WOULD SAY THAT I KNOW ONLY IN A GENERAL WAY THE REPORT OF THE COMMITTEE. ~~RECORD~~ FEEL PERSONALLY THAT PRESSURE SHOULD NOT BE RELAXED FOR SOMETIME AT LEAST. ~~RECORD~~ WOULD HOWEVER FAVOR DISCRETIONARY AUTHORITY TO COMMITTEE TO BUY ACCEPTANCES AS USUAL; ~~COMMA~~ AND ~~COMMA~~ IN CASE OF SUDDEN EMERGENCY, ~~COMMA~~ OR OF CONDITIONS UNDER WHICH CONTINUOUS PRESSURE WOULD INJURE CROP MOVING AND PENALIZE BUSINESS MORE THAN IT WOULD BE OF HELP IN CONTROLLING EXISTING TENDENCIES, ~~COMMA~~ TO PURCHASE SECURITIES UP TO A FIXED AMOUNT, ~~COMMA~~ BUT, ~~COMMA~~ IF REASONABLE POSSIBLE, ~~COMMA~~ COMMITTEE SHOULD CONSULT WITH GOVERNOR YOUNG BEFORE BUYING SECURITIES; ~~SENSE~~ ON IF NOT POSSIBLE, ~~COMMA~~ THE COMMITTEE SHOULD HAVE DISCRETIONARY AUTHORITY TO ACT

CHARLES S HAMLIN

815A AUG 16

EXCERPT FROM THE MINUTES MEETING OF THE FEDERAL RESERVE BOARD OF AUG. 13, 1928

(Present: Governor Young, Mr. Platt, Mr. Miller, Mr. James and Mr. McIntosh)

333-81

8-13-28

Mr. Miller then submitted, and the Secretary read, a proposed circular letter to all Federal Reserve banks on the subject "Special rates on seasonal crop marketing paper"; the letter defining seasonal crop marketing paper and advising that the Federal Reserve Board stands ready to approve a rediscount rate on such paper of from 1/2 of one per cent to one per cent below the rate on other classes of paper, with a view of adjusting the present rate structure so as to facilitate seasonal accommodation to commerce and business.

Attached to 876 28

Discussion then ensued during which Mr. James stated that he is in hearty sympathy with the result sought to be accomplished by Mr. Miller's suggestion but that in lieu thereof he wished to suggest that this result could be better obtained if the Board would advise the Federal Reserve banks that it stands ready to approve buying rates for bankers acceptances and trade bills, regardless of origin, from one-half of one per cent to one per cent below the rate for other classes of paper. Mr. James stated his belief that that should be the method of action by the Federal Reserve System.

Following the discussion, it was voted that the suggestions of Mr. Miller and Mr. James be discussed with the Open Market Investment Committee which is now in session.

The Governor left the room and upon his return stated that he had submitted the two suggestions to the Committee and that the Committee would like to meet with the Board this afternoon.

At 12:20 p.m. the meeting recessed, and reconvened in the Board room at 2:30 p.m., the same members being present as attended the morning session and, in addition, Messrs. Harding, Harrison, Norris, Fancher and McKay, members of the Open Market Investment Committee, Mr. Burgess, Acting Secretary of the Committee, Mr. Goldenweiser, Director of the Board's Division of Research and Statistics and Mr. Smead, Chief of the Division of Bank

8/13/28

-2-

Operations.

Mr. Harrison, Acting Chairman of the Committee, presented a memorandum on credit conditions dated August 13th which had been submitted to and considered by the Committee.

He then reported that the Committee had considered briefly the suggestions made at the meeting of the Board this morning by Mr. Miller and Mr. James for the establishment of preferential rates on "Seasonal crop marketing paper" and bankers acceptances and trade bills, respectively. He stated that the Committee, with the exception of Governor Harding, felt that preferential rates on special classes of paper would probably not accomplish what is desired and that the Committee feels that the question whether the season's crops can be moved expeditiously and reasonably involves the bigger question of the whole credit structure and will have to be dealt with through open market operations rather than through preferential rates on commodity paper. He expressed the opinion of the Committee that to reduce the bill rates would undoubtedly result in the dumping of a vast volume of acceptances on the Federal Reserve banks, which though it might have the effect of easing the credit situation would undo the work of many years in developing a bill market. He then presented the report of the Committee as follows:

"The policy recommended by the committee in most of its meetings since January, has been to check or prevent unduly rapid or unnecessary increase in the volume of bank credit. While the total volume of loans and investments of reporting member banks is now considerably above what it was at the low point in February, nevertheless, it is approximately \$300,000,000 below the high point of May, and there is evidence that member banks are making continued efforts to reduce their borrowings at Federal Reserve Banks.

The Committee does not believe that conditions necessitate an immediate purchase of securities by the System. It is of the opinion, however, that as pointed out at its last meeting, an extended period of high money rates and heavy pressure resulting from large borrowings by member banks would not be wholesome and that there are some indications that with the approaching fall

8/13/28

-3-

"demands for credit it may soon be possible or necessary to take steps looking toward the reduction, or at least the avoidance of the necessity of any substantial increase in the volume of member bank discounts. With these facts in view and realizing that if and when the time arrives undue delay may be hurtful to the situation, the Committee recommends that it should be the policy of the System to purchase securities whenever that should become necessary to avoid undue credit stringency.

The Committee would expect to take such steps as may be needed to carry out this policy, if approved, believing, however, that it might be advisable to have another meeting of the Committee to review the effect of any steps that may be taken in pursuance of this policy."

A detailed discussion of the report ensued, during which Mr. Harrison stressed the fact that the Committee's recommendation for the purchase of securities is intended to cover only an emergency situation and that securities would be purchased only as a last resort if a dangerously tight money situation should arise despite efforts to prevent such a situation through purchases of acceptances, exchange operations and otherwise.

Upon inquiry by the Governor, the other members of the Committee confirmed Mr. Harrison's statement that their recommendation contemplated purchases of government securities only as a last resort in an emergency situation.

S ~~JK~~ S

COPY

REPORT OF OPEN MARKET COMMITTEE AUGUST 13, 1928.

333-8-1

CONFIDENTIAL.*Carded*

The policy recommended by the committee in most of its meetings since January, has been to check or prevent unduly rapid or unnecessary increase in the volume of bank credit. While the total volume of loans and investments of reporting member banks is now considerably above what it was at the low point in February, nevertheless, it is approximately \$300,000,000 below the high point of May, and there is evidence that member banks are making continued efforts to reduce their borrowings at Federal Reserve Banks.

The Committee does not believe that conditions necessitate an immediate purchase of securities by the System. It is of the opinion, however, that as pointed out at its last meeting, an extended period of high money rates and heavy pressure resulting from large borrowings by member banks would not be wholesome and that there are some indications that with the approaching fall demands for credit it may soon be possible or necessary to take steps looking toward the reduction, or at least the avoidance of the necessity of any substantial increase in the volume of member bank discounts. With these facts in view and realizing that if and when the time arrives undue delay may be hurtful to the situation, the Committee recommends that it should be the policy of the System to purchase securities whenever that should become necessary to avoid undue credit stringency.

The Committee would expect to take such steps as may be needed to carry out this policy, if approved, believing, however, that it might be advisable to have another meeting of the Committee to review the effect of any steps that may be taken in pursuance of this policy.

333.-8-2

orig. filed 333.31 - meeting 8/13/28

WRB,
333.4-1

August 13, 1928.

Memorandum on Credit Conditions

Since the last meeting of the committee the effects on the credit situation of gold exports and Federal Reserve action have become more evident and may be summarized as follows:

1. Interest rates are generally higher. Time money in particular is firm and difficult to obtain.
2. The total volume of bank credit is somewhat further reduced. (300 million dollars since May), though the reduction is still confined to New York City banks and total loans and investments are still 8 per cent larger than a year ago. Total deposits are about 2 per cent larger than a year ago. ✓
3. The volume of issues of new securities has decreased and the market is congested.
4. Bond prices have declined further and average about 4 points under the year's high, and slightly under the 1927 low.
5. The market for government securities has weakened further and the July issue is nearly two points under par.
6. Stock prices have moved irregularly. Average prices (New York Tribune, 100 stocks) are about 8 points or 5 per cent under the year's high point. Trading is reduced in volume. Bank stocks continue weak.
7. Banks are showing concern about the credit situation and applying pressure to reduce borrowing at the Reserve Banks. New York City banks have sold \$118,000,000 of government securities since July 11.
8. European exchanges have weakened further and those of England, France, Italy, and Holland are only slightly above the points at which gold

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orig filed 333.31 meeting 7/13/28

August 13, 1928.

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will move to this country, unless prevented by higher rates abroad or sale of their balances here to support the exchanges.

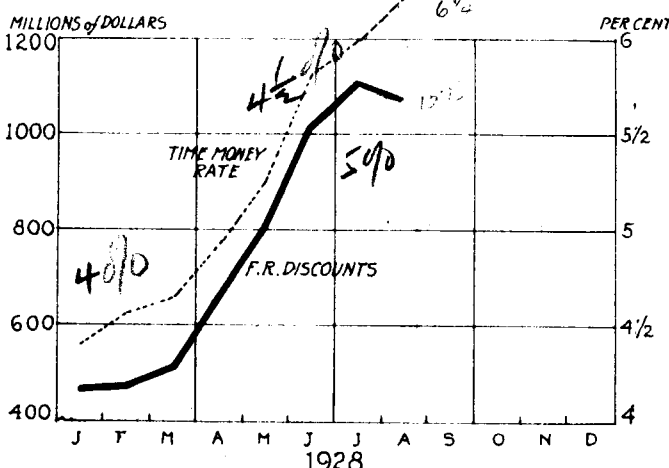
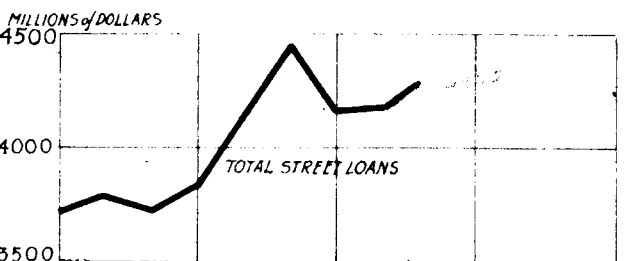
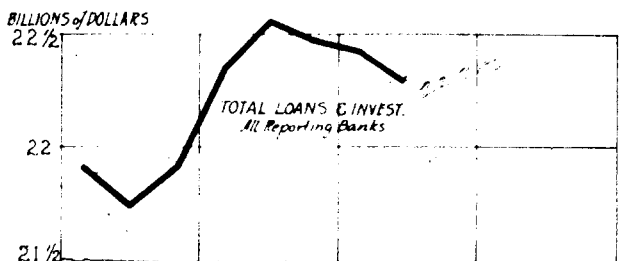
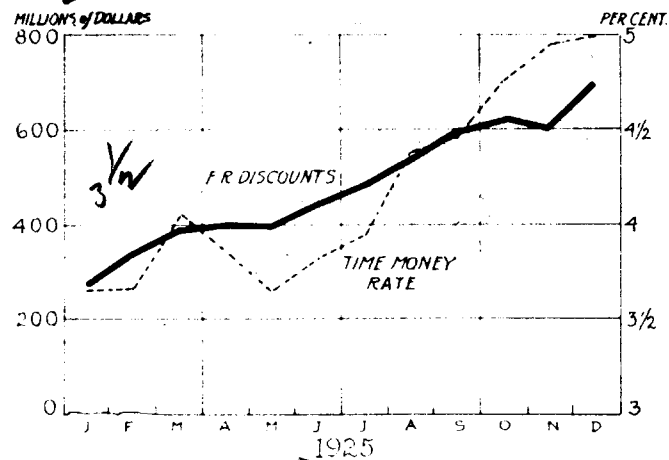
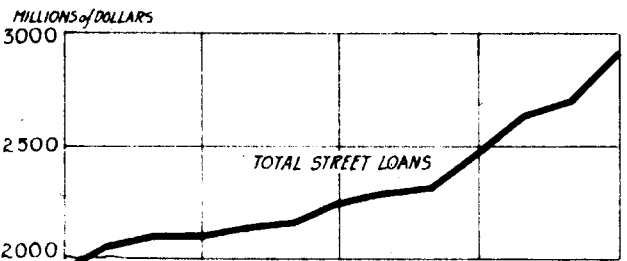
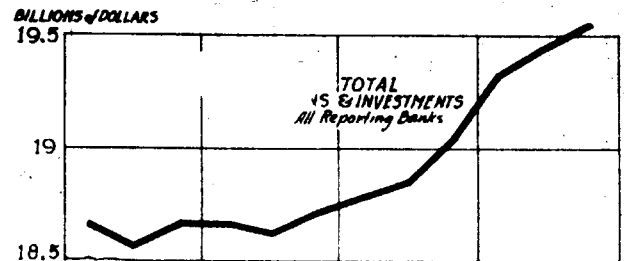
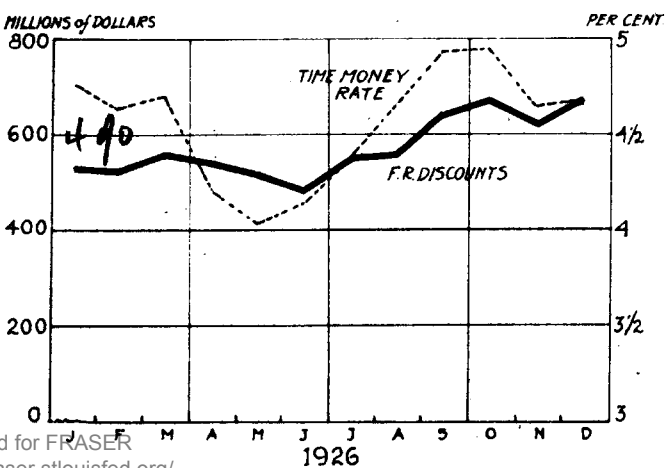
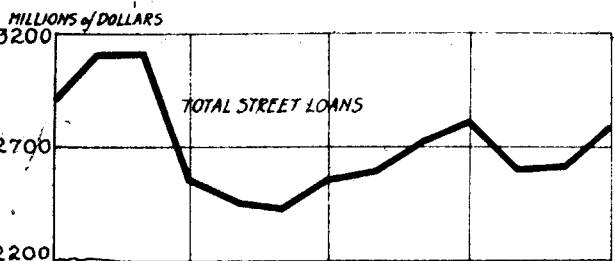
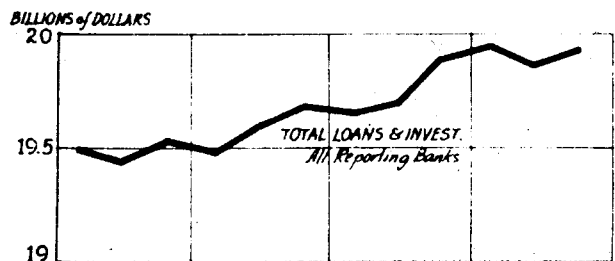
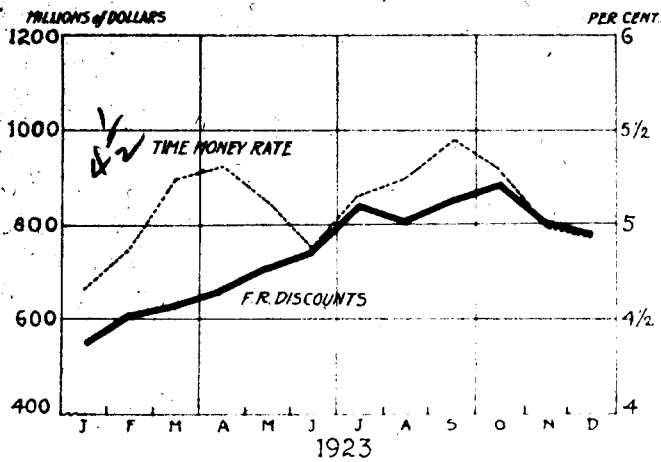
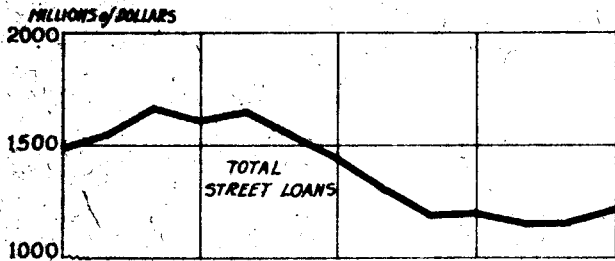
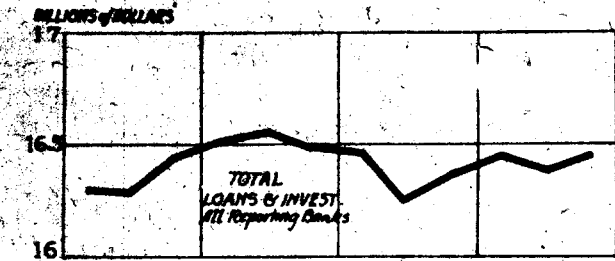
9. There is no evidence of restriction of business, though profits are reported small in some lines. Building and automobile production are particularly large. There appears to be an ample supply of credit for business at moderate rates.

Another development, apparently unrelated to credit conditions, has been a sharp decline in prices of certain agricultural products, accompanying estimates of larger crops. As a result it seems probable that the farm income will be reduced from earlier estimates and possibly less than last year.

These various developments raise the question as to whether and when a change of policy is desirable.

Earlier Periods For Comparison

Bearing upon the question of the timing of any change in policy, a comparison of this year's developments with those of recent previous periods of credit readjustment is made in the attached chart. The three periods shown for comparison are 1923 and 1925, when the System sold securities heavily in the spring simultaneous with rate increases, and 1926 when readjustment followed rate increases in November 1925 and January 1926. The 1925 readjustment was so temporary as hardly to show in the figures, but in 1923 and 1926 bills discounted amounting to between 500 and 700 million, and discount rates at 4 1/2 and 4 per cent respectively, appeared to be sufficient to check the expansion of credit, though in neither case was there any substantial liquidation of the total volume of credit.



August 13, 1928.

4

What Would Be A Normal Status?

The method or methods to be employed toward some relaxation in credit, when that becomes possible, depend upon the ends to be sought - especially what might be considered in the future to be a proper average of member bank borrowings and a normal level of rates.

The comparative ineffectiveness of rate increases this spring at a time when member banks owed the Reserve Banks about 500 million dollars, raises the question as to the relation between open market rates and Federal Reserve discount rates, and this raises the further question whether it is possible to bring about a different relation between Federal Reserve rates and the market. Experience appears to show that large indebtedness forces market rates high relative to the discount rate, and that the most feasible method of securing a somewhat more effective adjustment of market and discount rates would be to reduce the amount of member bank indebtedness while leaving rates unchanged.

But apart from any attempt to bring about a somewhat different relation between discount rates and market rates, there are some reasons for believing that the present amount of member bank borrowing is too large to be continued over an extended period without some unfortunate results.

1. Almost regardless of the discount rate, it keeps severe pressure on the credit situation.
2. By keeping open market rates high relative to the discount rate, it tends to make the cost of financing through acceptances higher than direct borrowing at banks and tends to dry up the bill market.
3. By keeping open market rates high relative to the discount rate, it makes borrowing profitable and creates difficulty in dealing with borrowing banks. "Good" banks work out of debt taking losses; less cooperative banks use the Reserve System for profit.

RECEIVED
AUG 13 1928
OFFICE OF
THE GOVERNOR

Cresco Iowa Aug 11/28

Gov Roy A Young
Washington D.C.

Submitted
AT BOARD MEETING
AUG 14 1928

Dear Governor:

in files

Your letter received and noted. You certainly run in to some hot weather on your return to the city. The weather was simply delightful while we was in Wisconsin. I hope you found it pleasant in Michigan. I have been here at the farm for five weeks and feel as though I was making some progress in health although I am gaining ^{slowly} in weight very slowly. I spend all of my time sitting in the shade playing with the grand children. I certainly find it hard to loaf. The whole world seems like a blank. Nothing to think about and no physical work seems to make things drag. Crops in Iowa never looked better and the farmers are feeling better natured and refusing to get excited over the election campaign.

There is considerable complaint about ~~the~~ business being poor in the County seat.
see letter 8/17/28

2

towns and strange as it might seem I find plenty of people who are following closely the changes in discount rates. The Country Banks are in the habit of referring to the discount rate as a reason for charging their customers 8%. I was glad to know that you and Mrs. Janner had been to New York. It really appears to me that the time will soon come, if it has not already arrived when some direct action will be necessary in order to stop the extravagant use of credit on the street. The country surely is going to resent the high discount now prevailing if some relief is not forthcoming in the near future. The small business man and manufacturer is merely making time and growing somewhat resentful over the efforts being put forth in behalf of our great prosperity, which they claim does not accrue to their business. It rather looks as though the small business man has had his day and that the chain store people are going to do the retail business of the Country.

Personally I feel, with the large crops now

coming on that prices are bound to go
 lower and any thing that can be done to as-
 sist in bringing a net return to the producer
 would be helpful & would favor easing up
 on the discount rate, but would not favor
 easing the situation by open market purchases.
 A lower discount rate would be welcomed
 by all legitimate business interests. Easing the
 situation through open market purchases looks
^{like} too much effort to help big interest only, and
 the country would be likely to resent it.]
 You know under present circumstances the
 people are getting a lot of information both wise
 and unwise which is bound to have effect.
 With personal regards

Sincerely yours
 E. H. Cunningham

100-1

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF VICE GOVERNOR

July 18, 1928

Dear Governor Young:

The Open Market Committee meeting was held today, and the Committee recommended that ~~no~~ action be taken at present and no action was taken. Tentatively August 13th was fixed as the date for the next meeting. We had a long discussion largely on brokers' loans but in part on the question of whether there was any probability that anything could be done towards easing the member banks out of debt by the time of the next meeting. Dr. Miller very strongly expressed the opinion that nothing could be done at that time, that we had better let the pressure stay on longer. My own feeling is that no one can tell at this time just what may be indicated as the right thing to do at that time. I feel that we have gone a little further than necessary in selling Government securities. We have 160 millions less securities in the System now than we had at this time last year which was, of course, before we began the purchase of securities as a part of the easy money program starting toward the end of July. One thing that was pretty clearly brought out both by Mr. Case and Mr. Burgess and that is that the gold exports went much further than anybody last fall expected they could go. As Mr. Burgess said, none of us thought it possible that France would want to stabilize her currency as early as the middle of 1928. The earliest date then thought of was about the first of January 1929. The French exports of gold, therefore, were very much greater than expected, and my view of it is that that fact alone made it unnecessary for us to go quite so far in selling Government securities. At any rate we have certainly very badly hit the market for Government securities, and some member banks, I am told, are considerably hooked up with them. Governor McDougal told of one bank in Chicago. My feeling is that the System could well take over a part of these holdings, especially where they could be acquired out of New York City, not immediately but in the course of perhaps a month or more. Governor Fancher spoke of a bank in Cleveland that was over-bought in Government securities. We could take these securities in such a way that although they would come into the System's special investment account and would show in the System holdings, none of them need be allocated to New York. That would not prevent the money from finding its way to New York ultimately but it would puzzle the financial sharks a little. ✓

Of course, no one can quite tell whether the Stock Market is entirely tamed or not. Call money opened today at 6 per cent, with \$18,000,000 offered, and the Stock Market opened firm. During the course of the day, call money rates ran down, first, to 5-1/2 per cent and finally at 1:45 P. M., to 5 per cent which was the closing figure, with 15,000,000 offered. Perhaps as a result the Stock Market closed up a little. The number of shares sold, however, is small and the market was dull, and if this sort of see-sawing goes on for another month, even if there isn't a big break, the savings of the country will catch up somewhat and pay off a certain amount of brokers' loans and other debt.

After something of a struggle we succeeded in obtaining the passage of a resolution, yesterday and today, which provides for the approval of further increases

- 2 -

of rediscount rates to 5 per cent by the Executive officer of the Board. I enclose copy of the resolution, which may be said to have been put through partly on initials, as Comptroller McIntosh is ill and is visiting a friend at Wardman Park Hotel. We considered going up there as a body but as Mr. James did not insist on that we used the Comptroller's initials instead.

Dr. Miller leaves tomorrow to go up to a camp in Maine where he will be entirely out of reach for a few days. He expects to be back, however, about the 5th or 6th of August. I am expecting to leave ^{Aug 1st} on for the day before the first, provided you are here by that time, though the exact date that I leave is not particularly important. Anyway, this new resolution makes it possible to handle rate increases without having the Board here, and the new by-law, which you telegraphed your approval of, will make it possible to take care of ordinary matters with only two people here. I expect to be back here at least every other week for a few days, and Mr. Hamlin does too, so we can easily have several meetings with a quorum present during August..

During the day today, increases of rates for Boston and St. Louis came in and were duly approved. That leaves Philadelphia, Cleveland, Minneapolis, Kansas City, Dallas and San Francisco still with a 4-1/2 per cent rate. At the Open Market Committee meeting today Deputy Governor Hutt was here instead of Norris from Philadelphia. He said that Philadelphia had a meeting at which they discussed rate increases at considerable length and finally left the matter to the Executive Committee. They have considerably increased borrowings and he thinks the Committee will act within a few days.

Yours very truly,

Edmund Platt

Hon. Roy A. Young,
150 Bluff Street,
Marquette, Michigan.

Best regards to Mrs. Young and the girls. Mr. Platt and I drove down to Cococquan for a picnic last Sunday. It is an interesting place and you must go there with us some time. Hot as hades here to-day. Cotton and corn ought to be doing well.

X/R
-f-1
July 16, 1928.

Beginning of the System's Special
Investment Account.

Mr. Van Foesen

In December 1923 the Federal Reserve Bank of New York began to accumulate United States securities for transfer to the System's Special Investment account. Purchases during December 1923 were as follows:

December 15	-	\$2,500,000	Certificates of indebtedness
18	-	1,000,000	do
24	-	2,200,000	do
24	-	1,100,000	Treasury notes
27	-	333,000	Certificates of indebtedness
28	-	73,500	do
28	-	1,557,000	Treasury notes
29	-	80,000	Certificates of indebtedness
31	-	115,000	do
31	-	<u>100,000</u>	Treasury notes
Total		\$9,058,500	

On January 2, 1924, the Federal Reserve Bank of New York forwarded a sales schedule No. 4332 transferring the above certificates of indebtedness, totaling \$6,301,500, to "Special Investment Account - Federal Reserve System as of January 1, 1924." On the same date the sales schedule No. 4333 made a similar transfer of Treasury notes, totaling \$2,757,000. On January 5 schedule No. 4341 was submitted showing purchases of certificates of indebtedness for the special investment account - Federal reserve system up to and including January 5. On this schedule were listed the \$6,301,500 of certificates of indebtedness covered by sales schedule No. 4332 under the caption "Transfer from Federal Reserve Bank of New York Special Investment Account." On the same date schedule No. 4342 listed Treasury notes purchased for the special investment account of the Federal Reserve System to January 5, listing thereon the \$2,757,000 of Treasury notes covered by sales schedule No. 4333.

From the above it will be noted that the Federal Reserve Bank of New York accumulated \$9,058,500 of U. S. securities for the special investment prior to the beginning of 1924, but that these securities were not apportioned among the 12 Federal reserve banks until January 1, 1924. Since the first of January 1924 the Federal Reserve Bank of New York has on several occasions purchased U. S. securities for transfer to the System's special investment account which were held in the New York bank's portfolio for a number of days and has also frequently held such purchases over night in its own portfolio. Such holdings have been disregarded in the table on securities held in special investment account in the 1927 annual report, although it is intended to include securities held by the New York bank in December 1923 which were transferred to the special investment account on January 1, 1924.

333-61

June 12, 1928.

Dear Mr. Case:

Governor Young received in due course and has brought to the attention of all of the Members of the Board your letter of June 1, transmitting and commenting upon a preliminary statement relative to the gold movement during May.

Very truly yours,

(Signed) Walter L. Eddy,

Walter L. Eddy,
Secretary.

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

Prepared by


333.-6-1

June 9, 1928

Dear Mr. Case:

I have just finished reading your letter of June 8, reviewing the events of the past week in reference to the money market. I have found all of the information very interesting and am having the letter circulated for the benefit of the other members of the Board.

Again thanking you for the detailed information, I am

Yours very truly,

R. A. Young,
Governor.

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

333.26-1

June 9, 1928

Dear Mr. Case:

This will acknowledge receipt of your letter of June 8, advising that the Bank of France has instructed you to earmark an additional \$50,000,000. At the moment this seems to be working into our program just as we want it to.

With kind personal regards, I am

Yours very truly,

R. A. Young,
Governor.

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

FOR SPECIAL CIRCULATION

PLEASE READ PROMPTLY, INITIAL AND RETURN TO SECRETARY'S OFFICE

Gov. Young ✓ Mr. Hamlin ✓ Mr. James ✓ Mr. McIntosh ✓
Mr. Platt ✓ FEDERAL RESERVE BANK

OF NEW YORK

June 8, 1928

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JUN 8 1928
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Circular

Dear Governor Young:

Reviewing the events of the past week, the call money market was very firm at the close of last week, and early this week, but has subsequently become rather easy, notwithstanding the fact that New York City banks were borrowing 285 million here this morning.

During the week a substantial amount of funds was taken from the money market through the further reduction in the bill holdings of the System, through some further sale of securities and through gold exports. There was also an increase in member bank reserve balances. These were partly offset by a reduction in currency circulation and an increase in the "float" of the Reserve Banks, but member bank borrowings increased about 38 million dollars, - almost entirely outside of New York City, however. The summary below indicates the factors that accounted for most of this increase in borrowings:

Factors increasing demand for reserve funds:

Gold exports	13 million dollars
Reduction in F.R. bill holdings	37 " "
Reduction in F.R. security holdings	9 " "
Increase in member bank reserves	27 " "
Total increase in demand	86 " "

Factors reducing demand for reserve funds:

Reduction in currency circulation	16 million dollars
Reduction in Government and other deposits	11 " "
Increase in "float"	23 " "
Total reduction in demand	50 " "

Net amount to be obtained through borrowing at Reserve Banks 38 million dollars.

Dealers offerings to us of bills continue to be considerably smaller than maturities, partly because of the heavy foreign demand, and partly because our rates with the cost of indorsement are above the market rates, especially on short bills. The reduction of 9 million in securities represents the sale of 7 million securities, which, as we reported last week, were purchased temporarily from a foreign account, and also a reduction of 2 million in sales contract holdings. Aside from this, no further sales of securities from the System Account were made.

There may be some further reduction in currency circulation during the coming week, and also some reduction in member bank reserve balances,

Noted
JUN 13 1928
FEDERAL RESERVE BANK

see ans 6/9/28

Noted

FEDERAL RESERVE BANK OF NEW YORK... ..

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

June 8/28

as our records indicate that the balances of New York City members on June 6 were about 17 million above requirements. At least partly offsetting these reductions, it is probable that the "float" of the Reserve Banks will be reduced during the week and will therefore take funds from the member banks.

We discussed yesterday the advisability of conferring with some of the New York City members who have been borrowing rather steadily in recent weeks, to see if they could not, by reducing their offerings in the money market, effect a reduction in their indebtedness here. Dr. Miller, who was here during the discussion, informally expressed himself as doubting the wisdom of any such action at the present time.

The appearance of the money market today seems to suggest, however, that such action may yet be necessary. The New York City banks at the opening of business today had surplus reserves amounting to approximately 20 million. They appear to have offered a corresponding amount of funds in the market, instead of reducing their indebtedness here, and consequently we have the unusual situation of a $5\frac{1}{2}$ per cent call rate with heavy offerings at the same time that the New York City banks are borrowing 285 million dollars here.

We have received word that 15 million is being paid in here today and a total of 50 million within the coming week, the proceeds of which are to be earmarked for account of the Bank of France. This, of course, will assist very much in preventing undue ease in the money market.

Very truly yours,


J.H. CASE,
Deputy Governor.

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

circulate

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FEDERAL RESERVE BANK
OF NEW YORK

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June 8, 1928.

Dear Governor Young:

Referring to my letter of June 6, there have been some further rather startling developments in the matter of withdrawals of gold in this market by the Bank of France. We have just received a confidential cablegram this morning stating that "in view of forthcoming stabilization of our currency we shall need an additional amount of \$50,000,000 of fine gold bars which we hereby ask you to earmark for our account".

The Bank of France desires the operation completed by next Thursday, and we are to-day setting aside \$15,000,000 of gold for them against money paid in to us by certain of the New York City banks.

Very truly yours,

J. H. Case
J. H. Case,
Deputy Governor.

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

FOR SPECIAL CIRCULATION

PLEASE READ PROMPTLY. INITIAL AND RETURN TO SECRETARY'S OFFICE

Gov. Young *Ray* Mr. Hamlin ✓ Mr. James ✓ Mr. McIntosh *absent full*
Mr. Platt *E.P.* Mr. Miller ✓ Mr. Cunningham ✓

see ans 6/9/28

Inted
AT BOARD MEETING
JUN 13 1928

333, -b-1

June 7, 1928.

Dear Mr. Case:

Governor Young brought to the attention of the Board this morning your confidential letter to him of June 6th, advising of instructions received from the Bank to France to ship to Paris, the gold now held earmarked for the account of the Bank of France, aggregating \$93,000,000.

Very truly yours,

(Signed) Walter L. Eddy,

Walter L. Eddy,
Secretary.

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

Prepared by


Board

FEDERAL RESERVE BANK
OF NEW YORK

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JUN 7 1928
THE FEDERAL RESERVE BANK OF NEW YORK
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CONFIDENTIAL

June 6, 1928.

Dear Governor Young:

We have received rather unexpectedly from the Bank of France instructions to ship to Paris the gold which we now hold earmarked for their account aggregating \$93,000,000. There will be eight consignments in the neighborhood of \$12,000,000 each, the first of which will leave New York on Saturday next and the last on July 8.

We shall follow the same practice on this movement as we did in the previous one in regard to publicity, that is, when we hand to the newspaper men each week the statement of gold exports and imports we will explain to them that the amount shipped to France was released from earmarked gold.

Very truly yours,

J. H. Case
J. H. Case,
Deputy Governor.

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

Noted
AT BOARD MEETING
JUN 7 1928

*see letter 6/8/28
see memo 6/7/28*

233-41
June 5, 1928

Dear Mr. Case:

I was extremely busy yesterday and also today, and did not find time to read your two letters of June 1, until late this afternoon. They are both very interesting and I am circulating them with the other members of the Board.

With kind personal regards, I am

Yours very truly,

(Signed) R. A. Young

R. A. Young,
Governor.

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

FOR SPECIAL CIRCULATION

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Gov. Young ✓ Mr. Hamlin ✓ Mr. James ✓ Mr. McIntosh ✓
Mr. Platt ✓ Mr. Miller ✓

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FEDERAL RESERVE BANK OF NEW YORK

CONFIDENTIAL

OF NEW YORK

June 1, 1928.

Dear Governor Young:

Supplementing our daily letter to the Federal Reserve Board concerning gains and losses to the money market, I am summarizing herein a few of the important changes which have taken place in New York and throughout the System during the past week.

Except for a temporary rise in call money to 6½% on Monday, and decline to 5½% Tuesday afternoon, the money market has been steady and moderately firm during the past week, due largely to further sales of securities from the System Account, reduction in Reserve Bank bill holdings, gold exports and a holiday and month-end currency demand.

There has been a fairly steady flow of funds to New York which, except for the reduction in Reserve Bank bill and security holdings, would have enabled the New York banks to reduce their indebtedness considerably and, consequently, would have eased the money market. As it was, the borrowings of the New York City banks totaled \$246,000,000 yesterday, an amount slightly larger than a week ago, while borrowings by banks outside of New York increased about \$90,000,000 during the week.

On Monday, a sale of nearly \$26,000,000 of securities to the market was made and was immediately reflected in an increase in the borrowings of New York City banks. On Tuesday, there was a temporary increase of slightly less than \$7,000,000 in the System Account, which was due to the temporary purchase of securities from a foreign account. Sales contract holdings of securities also increased \$7,000,000 during the week; so that the net reduction in total security holdings was but \$11,000,000. At the close of business tonight, the open market portfolio will stand at \$75,000,000.

Filed
AT BOARD MEETING
JUN 13 1928

*

✓

W. H. C. /

see memo 6/5/28

FEDERAL RESERVE BANK OF NEW YORK.....

2.

Governor Yo.

6/1/28.

The present level of our buying rates on bills, which, with the cost of indorsement, makes them above the open market offering rates on the shorter maturities, has resulted in small offerings of bills to us and a consequent reduction of \$27,000,000 in the total bill holdings of the System during the past week. Yesterday, maturities here exceeded purchases by an additional \$10,000,000. A factor in the comparatively low open market rates on short bills has been the strong demand for bills for foreign account. The new law exempting income received by foreign central banks from bills (effective as of January 1, 1928) is likely further to stimulate the foreign demand for bills in this market.

The gold movement continues to be an influence toward firm money. The principal item during the past week was an export of \$15,000,000 to London by a New York bank. This shipment and the \$5,000,000 shipment to London last week are reported to have been special transactions - they were not warranted by the position of sterling, figuring the usual costs involved in the calculation of the gold export point. Sterling exchange has advanced to the highest level of the year, notwithstanding the relatively high level of money rates here. We understand that a factor in its strength has been the \$50,000,000 Australian loan recently floated here, the proceeds of which have been made available to the British Government.

Holiday and month-end currency requirements have created a further, though temporary, demand for funds this week. A considerable part of this currency will probably return from circulation next week, but the influence of this on the money market is likely to be offset by the withdrawal of funds from New York, which usually occurs in the first week of each month.

Recapitulating, the principal developments of the week have been the following:

Increase in borrowing from Reserve Banks:

By New York City banks.....	\$ 8,000,000
By all others (accompanying transfers to New York and some increase in currency requirements).....	88,000,000
Total.....	<u>\$96,000,000</u>

FEDERAL RESERVE BANK OF NEW YORK

Governor Young

6/1/28.

Principal causes of increased demand for reserve funds:

Net reduction in security holdings.....	\$11,000,000
Reduction in bill holdings.....	26,000,000
Gold exports.....	17,000,000
Temporary increase in currency circulation.....	<u>43,000,000</u>
Total.....	<u>\$97,000,000</u>

The immediate prospect, then, appears to be for continued firmness in the money market during the coming week. It seems likely that the total indebtedness of all member banks for the present will remain above \$900,000,000. It is possible that New York banks may continue to gain, through transfers, for a day or two longer, but in view of the fact that they are now engaged in meeting first-of-the-month dividend and interest disbursements, they are not likely to offer funds freely in the call loan market. If, however, they do appear to be lending freely, additional security sales may be necessary to prevent a decline in money rates.

Call money has just gone to 6 1/2!

Very truly yours,



J. H. CASE,
Deputy Governor.

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

FOR SPECIAL CIRCULATION

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 Mr. Platt ✓ Mr. Miller ✓ ~~Mr. ...~~

FEDERAL RESERVE BANK
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June 1, 1928.

Dear Governor Young:

(2) I am enclosing a preliminary statement of the gold movement during May from which you will observe that the net loss for the month was \$109,000,000 including both actual shipments and earmarking transactions. This is the largest net loss in any one month since the present export movement began in September 1927. The total exports of gold for the month were \$83,000,000 and although that figure was exceeded by slightly over \$10,000,000 in both March and April, nevertheless there were practically no imports in May and the amount of gold earmarked was much larger than any month this year. As you know, the large amount of gold earmarked for the Bank of France at the beginning of the month was responsible for this.

The following table showing gains or losses of gold through exports and earmarkings in millions of dollars will be of interest:

Month	Through Net Exports	Through Earmarking	Total
1927			
September	- 11	- 9	- 20
October	- 9	- 25	- 34
November	- 53	- 40	- 93
December	- 68	- 8	- 76
1928			
January	- 14	+ 6	- 8
February	- 11	+ 3	- 8
March	- 95	+ 36	- 59
April	- 91	+ 46	- 45
May	- 83*	- 26*	-109*
Total, 9 months	-435*	- 17*	-452*

Noted
 AT BOARD MEETING
 JUN 12 1928

* Preliminary

see memo 6/12/28 see memo 6/5/28

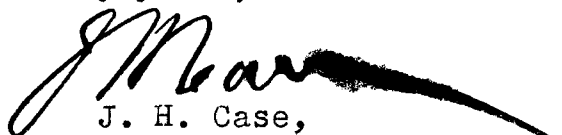
As I have said, the Bank of France was the most important factor in our earmarking transactions; so also with respect to actual shipments of gold the largest amount withdrawn during May was for account of the Bank of France. For the present this movement has stopped as we have no instructions at the moment to make further shipments to France and have received no intimation that the amount of gold which they now hold earmarked with us (\$93,000,000) is to be taken home in the near future.

The second largest withdrawals of gold during May were to Great Britain. Two shipments aggregating \$5,000,000 and \$15,000,000 were made to London by the National City Bank of New York and were in part brought about by the present strength of sterling exchange. Taking into consideration the present shipping costs from New York to London, it is impossible to see how any profit could be made on these two consignments with sterling at \$4.88-5/16 to \$4.88-3/8, unless the gold were sold in the London market at close to the maximum price of 77s. 10½d. Only a very small part of the first consignment of \$5,000,000 was sold in the London market, most of the gold having been sold to the Bank of England at its minimum buying price of 77s. 9d. The second consignment of \$15,000,000 has not yet arrived but there does not appear to be any strong demand for gold in the London market and we must, therefore, conclude that these transactions are of a special nature and are not being undertaken primarily for profit.

FEDERAL RESERVE BANK OF NEW YORK 3 - Governor Young 6/1/28

Argentina took a fairly substantial amount of gold during the month as she has been doing now since the latter part of last year and there was a small amount sent to Italy. Otherwise there is nothing of importance in the gold movement during May which requires special comment.

Very truly yours,


J. H. Case,
Deputy Governor.

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

FOR SPECIAL SERVICE

Strictly Confidential

GOLD MOVEMENT

May 1 - 31 inc., 1928

(000's)

<u>Country</u>	<u>Imports from</u>	<u>Exports to</u>	<u>Earmarks</u>	<u>Releases</u>
Argentina	-	12,700	-	-
Belgium	-	-	2,500	-
Colombia	113	1,517	-	503
France	-	42,462	67,000	42,462
Great Britain	-	20,026	-	-
Italy	-	4,000	-	-
Venezuela	44	1,300	-	-
All Other	377	600	-	-
Totals	\$544	\$82,605	\$69,500	\$42,965
		<u>69,500</u>		
		<u>152,105</u>		
		<u>43,509</u>		
		108,596	Net Loss for Month	

Since Last Thursday's Report

\$14,991,000 exported to England
 2,000,000 " " Italy
 510,000 " " Colombia
 90,000 " " Mexico
 52,000 " " Germany
 15,000 " " India
\$17,658,000

Still to Go

\$2,000,000 to Italy and
 \$1,000,000 to Argentina on
 June 1.
 \$500,000 to Colombia on
 June 6.

Note:

Total gold held under
 earmark by Federal
 Reserve Bank of New York
 as of close May 31 was
 \$136,050,294.38.

Federal Reserve Bank of New York
 Foreign Information Division
 June 1, 1928
 MER/PW

333-f-1

May 25, 1928

Dear Mr. Case:

Filed 333.31 5-25-28

The Federal Reserve Board has considered the report and recommendations submitted by the Open Market Investment Committee today, a copy of which, in the form finally adopted by the Committee is attached hereto.

The Board approves the policy outlined in the report and authorizes the sale of further securities from the Open Market Investment Account, if such sales are deemed necessary by the Committee.

X

Very truly yours,

(Signed) R. A. Young

R. A. Young,
Governor.

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

copy filed 333.31

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

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

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

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

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date May 18, 1938.

To Governor Young

Subject: 333-1

From Mr. Hamlin

2-4495

Dear Governor Young:

I send you herewith a table showing total Federal Reserve credit, member bank reserve deposits, monetary gold, stock, and money in circulation on October 31st of each year since 1923. These have been checked up by Mr. Smead. I also enclose a statement which I have made from them. This statement, in my opinion, bears out absolutely your frequent statements that in the long run open market operations neither increase nor decrease the total amount of Federal Reserve credit, and that in every year in which Government securities have increased, Federal Reserve credit has decreased, and in every year in which Government securities have decreased, Federal Reserve credit has increased.

The total movement of deposits must rest on member bank reserve deposits, and these have steadily increased during all these years, irrespective of open market operations. The banks have been able to build up these reserve balances through gold imports, withdrawal of money from circulation, and rediscounts.

I wish you would look this over and let me know how it strikes you.

Sincerely yours,

W. H. Hamlin

Read 5/18/38
Should be the
and
correct
Hamlin
my shoes
clear
Paul

Bills and Securities, "A1" Fed-".

In billions of dollars.

	Discounts	Bills	Gov't Sec.	Other Bills & Sec.	Gov't Sec. + Other	Total
July 27, 1927. W.	398	169	385	1	386	954
Aug. 3, 1927. W.	445	178	407	1	409	1,032
July 25, 1928. W.	1,025	169	208	1	208	1,402
" 31, 1928. F.	1,031	162	215	1	215	1,408

May 1 1928.

Call

Government securities increased only in 1923 - 24 and 1926 - 27.

Federal Reserve credit decreased in 1923 - 24 and 1926 - 27.

Government securities decreased in:

1924 - 25

1925 - 26

1927 - 28

In all these years Federal Reserve credit increased.

October 31, 1923 - October 31, 1924.

Government securities	+ 500
Discounts	- 500
Gold imports	+ 342
Reserve balance	+ 243
Federal Reserve credit	- 129

October 1924 - October 1925.

Government securities	- 287
Discounts	+ 352
Gold exports	+ 102
Reserve balance	+ 76
Federal Reserve credit	+ 244
Cash taken from bank reserves:	
Government securities	257
Gold exports	102
Money in circulation	
Increased	<u>27</u>
	<u>386</u>
Reserve balance increased	<u>76</u>
Banks have to make up	462
Provided by:	
Bills bought	+ 147
Discounts	<u>+ 352</u>
	<u>499</u>

October 1925 - 1926.

1. Government securities	- 26
2. Discounts	+ 74
3. Gold imports	+ 66)
4. Money in circulation)
Increased	+ 52)
	<u>14</u>

Gold taken from bank reserves	
Government securities	26
Difference between 3 and 4	14
Bills bought in open market	<u>24</u>
	64
Reserve balance increased	<u>9</u>
	73
Discounts increased	74
<u>Federal Reserve credit increased</u>	20

October 1926 - 1927.

Government securities	+ 221
Rediscounts paid off	278
Gold imports	+ 68
Money in circulation. Increased	75

Gold taken from bank reserves	0
Reserve balances increased	101
Provided by:	
Gold stock	68
Money in circulation. Increased	<u>75</u>
	143

Federal Reserve credit decreased 40

October 1927 - April 1928.

Government securities	- 326
Rediscounts	+ 422
Gold exports	+ 275
Money in circulation	- 196

Gold taken from bank reserves	
Gold exports	275
Offset by money in circulation	
Increased	<u>196</u>
Net	79
Reserve balance increased	<u>118</u>
Bank must provide	197
Discounts increased	422

TOTAL BILLS AND SECURITIES, BY CLASSES, MEMBERS RESERVE DEPOSITS, MONETARY GOLD STOCK, AND AMOUNT OF MONEY IN CIRCULATION, OCTOBER 31, 1923 TO APRIL 30, 1928

(In millions of dollars)

	Oct. 31 1923	Oct. 31 1924	Oct. 31 1925	Oct. 31 1926	Oct. 31 1927	April 30 1928
Bills discounted	884	264	616	690	412	834
Bills bought in open market	205	200	347	323	342	357
U. S. Government securities	92	584	327	301	522	296
Total bills and securities	1,181	1,052	1,296	1,316	1,276	1,488
Member bank-reserve account	1,895	2,138	2,214	2,223	2,324	2,442
Monetary gold stock	4,167	4,509	4,407	4,473	4,541	4,266
Money in circulation	4,925	4,942	4,969	5,021	4,946	4,750

INCREASE OR DECREASE

Bills discounted	-620	+352	+74	-278	+422
Bills bought in open market	- 5	+147	-24	+ 19	+ 15
U. S. Government securities	+492	-257	-26	+221	-226
Total bills and securities	-129	+244	+20	- 40	+212
Member bank-reserve account	+243	+ 76	+ 9	+101	+118
Monetary gold stock	+342	-102	+66	+ 68	-275
Money in circulation	+ 17	+ 27	+52	- 75	-196

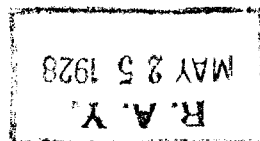
At the time of the last meeting of the Open Market Committee on April 30th, it appeared that the expansion in the total volume of bank credit was continuing at what appeared to be an unduly rapid rate. Since then, sales of securities by the reserve banks have continued, several of the reserve banks have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

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

After considering the memorandum submitted by the Chairman and reviewing the various factors in the credit situation, the committee sees no reason to change the policy adopted at the last meeting and concurred in by the Federal Reserve Board. In continuing this policy the committee believes some further sales of securities may be desirable.

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

May 25, 1928



GOVERNMENTS HELD IN OPEN MARKET INVESTMENT ACCOUNT
 (In millions of dollars)

January	4	423
	11	400
	18	368
	25	309
February	1	292
	8	273
	15	273
	21	273
	29	273
March	7	273
	14	269
	21	258
	28	258
April	4	256
	11	248
	18	200
	25	170
	26	155
	27	154

R. A. Y.
 MAY 2 1928

FOR SPECIAL CIRCULATION
 PLEASE READ THIS LETTER IN FULL AND RETURN TO SECRETARY'S OFFICE
 Gov. Young ✓ Mr. Hamlin ✓ Mr. James ✓ Mr. McInyosh ✓
 Mr. Platt ✓ Mr. Miller ✓ Mr. Cunningham ✓

FEDERAL RESERVE BANK

OF NEW YORK

RECEIVED
 MAY 8 1928
 FEDERAL RESERVE BANK OF NEW YORK

CONFIDENTIAL

May 8, 1928.

Dear Governor Young:

" Since the week ended Wednesday, May 2, 1928, further sales from the Open Market Investment Account, approximating \$17,000,000, have been made, reducing the account from \$157,000,000 to an estimated total of \$140,000,000 as at the close of business Wednesday, May 9, 1928.

In this connection I am enclosing a statement giving the changes in total holdings of Government securities in the System Special Account on a weekly basis since January 4, 1928. These figures show that, since the beginning of this year, a total of \$283,000,000 of Government securities has been disposed of, which sales in turn have been reflected in a very substantial increase in bills discounted and direct advances to member banks. The statement of the Federal Reserve Bank of New York as at the opening of business this morning, compared with a week ago, reflects a loss in cash reserves of \$78,000,000 and an increase in total bills discounted of almost precisely that figure. A part of this loss in reserves represents the withdrawal of funds from New York, but even if these funds are returned, due to prevailing high rates for call money, it appears to be unlikely that New York banks will be enabled to reduce their indebtedness much below \$200,000,000.

You will recall that during the Governors Conference at Washington last week, Mr. Harrison reported the likelihood of one of our foreign correspondents (the Bank of France) withdrawing \$67,000,000 of funds from the New York market; the procedure being to have the funds paid in here for its account and the proceeds thereupon applied to the earmarking of a like amount of gold. We have

FEDERAL RESERVE BANK OF NEW YORK

2.

Governor Young.

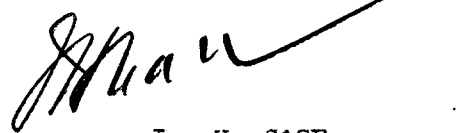
5/8/28

CONFIDENTIAL

now received definite word from the Bank of France that it plans to withdraw a total of \$37,000,000 this week, about as follows: \$17,000,000 on Wednesday, May 9, and \$10,000,000 each on Thursday, May 10, and Friday, May 11 - the remaining \$30,000,000 to be similarly withdrawn on Monday, Tuesday and Wednesday of next week, May 14, 15 and 16 respectively, in units of \$10,000,000 each.

When the aggregate of this sum comes to be added to our already expanded volume of bill and security holdings, which today total \$450,000,000, it would appear that our member banks will be indebted to us (in the form of discounts and advances) in an amount somewhere between \$200,000,000 and \$300,000,000; with total holdings of approximately \$500,000,000. If member banks' indebtedness to us should hold somewhere between those two figures, it may presently be necessary to consider carefully the idea of making some slight changes upward in our rate structure. In any event, it seems reasonably clear that, with this large withdrawal of funds from the market, it may be unnecessary to make further sales of securities for the present.

Very truly yours,



J. H. CASE,
Deputy Governor.

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

Noted
AT EXECUTIVE COMMITTEE
MEETING,

MAY 14 1928



MISC. 3. 1 60M-7-27

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 8, 1928

TO Mr. Case
FROM W. B. Matteson

SUBJECT: Statement Showing Changes in Total Holdings of Government Securities in System Account by Weeks Since January 4, 1928

Total holdings of Government securities in System Account January 4, 1928.....	\$423,158,500
<u>Less</u> net sales during statement week ending January 11, 1928.....	23,628,500
Total holdings close of business January 11, 1928.....	\$399,530,000
<u>Less</u> net sales during statement week ending January 18, 1928.....	31,450,000
Total holdings close of business January 18, 1928.....	\$368,080,000
<u>Less</u> net sales during statement week ending January 25, 1928.....	59,061,000
Total holdings close of business January 25, 1928.....	\$309,019,000
<u>Less</u> net sales during statement week ending February 1, 1928.....	16,625,000
Total holdings close of business February 1, 1928.....	\$292,394,000
<u>Less</u> net sales during statement week ending February 8, 1928.....	19,200,000
Total holdings close of business February 8, 1928.....	\$273,194,000
Total holdings close of business February 15, 1928 (no change)	273,194,000
Total holdings close of business February 22, 1928 (no change)	273,194,000
Total holdings close of business February 29, 1928 (no change)	273,194,000
Total holdings close of business March 7, 1928 (no change)	273,194,000
<u>Less</u> net sales during statement week ending March 14, 1928.....	3,748,000
Total holdings close of business March 14, 1928.....	\$269,446,000
<u>Less</u> net sales during statement week ending March 21, 1928.....	11,176,200
Total holdings close of business March 21, 1928.....	\$258,269,800
<u>Plus</u> net purchase during statement week end. March 28, 1928.....	223,900
Total holdings close of business March 28, 1928.....	\$258,493,700
<u>Less</u> net sales during statement week ending April 4, 1928.....	2,455,400
Total holdings close of business April 4, 1928.....	\$256,038,300
<u>Less</u> net sales during statement week ending April 11, 1928.....	8,230,000
Total holdings close of business April 11, 1928.....	\$247,808,300
<u>Less</u> net sales during statement week ending April 18, 1928.....	47,840,000
Total holdings close of business April 18, 1928.....	\$199,968,300
<u>Less</u> net sales during statement week ending April 25, 1928.....	29,890,000
Total holdings close of business April 25, 1928.....	\$170,078,300
<u>Less</u> net sales during statement week ending May 2, 1928.....	12,920,000
Total holdings close of business May 2, 1928.....	\$157,158,300
<u>Less</u> net sales during statement week ending May 9, 1928.....	16,650,000
Total holdings close of business May 9, 1928.....	\$140,508,300

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
MAY 5 1928
U.S. DEPARTMENT OF THE TREASURY
333

May 4, 1928.

Dear Governor Young:

I acknowledge with thanks the receipt of your letter
of May 2, 1928, relative to the report and recommendations (of
the Open Market Investment Committee as of April 29, 1928.

See 333-6-2
5-27-28

Very truly yours,



J. H. CASE,
Acting Chairman,
Open Market
Investment Committee.

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

333-6-1

May 2, 1928

Dear Mr. Case:

Carded

The report and recommendations of the Open Market Investment Committee as of April 29, 1928, have been received and considered by the Board. We observe that the Committee now recommends that the general policy adopted at its last meeting be continued until the next meeting. The previous meeting, to which you refer, was held on March 26, and at that time your Committee recommended that the general policy established in January be followed. In January you stated the Committee program should work toward somewhat firmer money conditions and to accomplish the program the Committee would expect to sell further amounts of Government securities, the object being to check further unduly rapid increase in the volume of credit. The Board therefore assumes that your present policy is a continuation of the program adopted in January.

We also observe from your report of April 29 that it is now expected by your Committee that this policy will be continued until the next meeting of the Open Market Investment Committee, which you contemplate holding shortly after the middle of June, unless conditions make an earlier meeting advisable. The Board realizes that it is extremely difficult for the Committee to outline any definite procedure to be followed between now and June 15, and in like manner, it is extremely difficult for the Board to approve any definite policy for any definite period. It, however, is in agreement with the procedure suggested by the Committee at the moment and therefore gives approval to its recommendations, but in doing so, reserves the same right that the Committee reserves of changing its position should conditions develop which would make a change advisable.

*See 333-6-2
4-29-28*

By order of the Federal Reserve Board.

Yours very truly,

(Signed) R. A. Young

R. A. Young,
Governor.

Mr. J. H. Case,
Open Market Investment Committee,
Federal Reserve Bank,
New York City, N. Y.

see ans 5/4/28

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

May 2, 1928

Dear Mr. Case:

to which you refer,

The report and recommendations of the Open Market Investment Committee as of April 29, 1928, ~~has~~ been received and considered by the Board. We observe that the Committee now recommends that the general policy adopted at its last meeting be continued until the next meeting. The previous meeting was held on March 26, and at that time your Committee recommended that the general policy established in January be followed. In January you stated the Committee program should work toward somewhat firmer money conditions and to accomplish the program the Committee would expect to sell further amounts of Government securities, the object being to check further unduly rapid increase in the volume of credit. The Board therefore assumes that your present policy is a continuation of the program adopted in January.

We also observe from your report of April 29 that it is now expected by your Committee that this policy will be continued until the next meeting of the Open Market Investment Committee, which you contemplate holding shortly after the middle of June, unless conditions make an earlier meeting advisable. The Board realizes that it is extremely difficult for the Committee to outline any definite procedure to be followed between now and June 15, and in like manner, it is extremely difficult, in fact almost impossible, for the Board to approve any definite policy for any definite period. It, however, is in agreement with the procedure suggested by the Committee at the moment and therefore gives approval to its recommendations, but in doing so, reserves the same right that the Committee reserves of changing its position should conditions develop which would make a change advisable.

*S * S*

By order of the Federal Reserve Board.

Yours very truly,

Appd
AT BOARD MEETING
MAY 2 1928

R. A. Young,
Governor.

Mr. J. H. Case,
Open Market Investment Committee,
Federal Reserve Bank,
New York City, N. Y.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date May 6, 1928.

To Federal Reserve Board

Subject: _____

333-81

From Mr. James.

Classified

2-3445
G.P.O.

In view of the abnormal increase in brokers' loans and other evidences of an inflationary tendency in the money market, I desire at this time to offer the following suggestions in the hope that the Board may adopt them as a part of its policy:

FIRST: That daily settlements as to reserve requirements be ordered for all reserve cities. Deposits computed as at opening of the day's business to govern. *bank or branch*

SECOND: Liquidate the System's Open Market Account and suspend temporarily all activities of the Open Market Committee. *

THIRD: Establish ~~the~~ rate same as the discount rate for buying of bills and for repurchase agreements.

FOURTH: The Board to suggest or request the reserve banks to make no loans on collateral notes to banks having money on call after duly notifying the member banks of this policy.

As I see it, there is nothing in the present business situation that warrants the raising of the discount rates so long as the reserve banks are loaning money to member banks having money employed in the call market. When the open market account is liquidated it will, in my judgment, be time to consider the rediscount rates.

G. P. ...

*Submitted at Board Meeting
May 2, 1928*

FEDERAL RESERVE BANK
OF RICHMOND

333
RECEIVED
APR 30 1928
FEDERAL RESERVE BANK
OF RICHMOND

April 28, 1928.

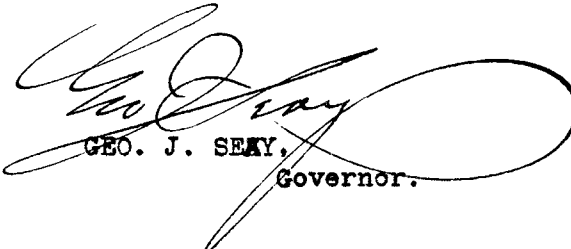
Dear Governor Young:

We have just received your letter dated the 25th, setting forth your understanding of our conversation of the 24th over the phone relating to a resolution of our directors concerning the disposal of the Open Market investment securities held by this bank. This letter is merely to state that your understanding is entirely correct.

Our directors hold the firm opinion that further inflation of credit should be decisively checked, and by taking the stand evidenced by their resolution, it was their purpose to acquit themselves of further responsibility for continued credit expansion. The System's investment securities have been rather freely sold, in an orderly manner since the passage of that resolution, and it is our assumption that they will continue to be sold until the purpose is achieved, so far as such action can achieve it.

Very truly yours,

GJS-CCP


GEO. J. SEAY,
Governor.

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

33 R. A. Y
MAY 2 1928

April 27, 1928.

Dear Mr. Case:

Receipt is acknowledged of your letter of April 23rd. containing a statement as to the loss of gold since November 10, 1927, and the resulting increase in the use of Federal Reserve bank credit, together with changes in currency circulation, member bank reserve requirements and the effect of security sales on Reserve bank discounts. Your letter has been brought to the attention of all members of the Board, who were interested in its contents.

Very truly yours,

(Signed) R. A. Young

R. A. Young,
Governor.

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

Prepared by
[Signature]

Form No. 181.

Office Correspondence

FEDERAL RESERVE
BOARD

Date April 26 1928. Y.

MAY 2 1928
333.-61

To Governor Young

Subject:

From Mr. Smead

2-8205

•••

Attached hereto is a table showing holdings of United States securities, exclusive of amounts held in special investment account and under repurchase agreement, by each Federal reserve bank on the last day of each year since 1923 and on Wednesday, April 25, 1928. This statement was prepared for your use in connection with topic I-A-4 on the program for the Governors' conference, subject "Purchases and sales of Government securities by F. R. banks for their own account apart from the System account."

*Read
4/27/28*

HOLDINGS OF UNITED STATES SECURITIES, EXCLUSIVE OF AMOUNTS HELD IN SPECIAL INVESTMENT ACCOUNT
AND UNDER REPURCHASE AGREEMENT

FEDERAL RESERVE BANK	December 31, 1923	December 31, 1924	December 31, 1925	December 31, 1926	December 31, 1927	April 25, 1928
Boston,	\$5,809,700	\$3,575,150	\$5,218,000	\$829,000	\$689,000	\$707,000
New York,	1,202,450	1,257,350	1,322,050	1,356,000	17,425,000	3,274,000
Philadelphia,	12,951,500	17,447,800	17,497,600	15,008,000	15,186,000	15,186,000
Cleveland,	11,195,100	14,866,400	18,757,900	22,140,000	26,236,000	26,309,000
Richmond,	1,340,900	1,340,900	1,340,900	1,241,000	1,153,000	1,153,000
Atlanta,	382,650	2,467,700	2,767,400	1,890,000	3,650,000	3,117,000
Chicago,	6,557,900	17,293,500	20,186,800	19,927,000	19,927,000	19,927,000
St. Louis,	-	-	2,474,500	6,503,000	16,620,000	16,626,000
Minneapolis,	8,036,410	7,744,910	7,557,710	7,568,000	7,558,000	7,584,000
Kansas City,	7,168,300	10,328,350	12,615,700	9,473,000	9,633,000	9,732,000
Dallas,	6,679,500	1,555,000	6,685,900	3,736,000	9,029,000	9,990,000
San Francisco,	9,185,400	9,212,900	9,656,500	9,684,000	9,693,000	9,681,000
TOTAL,	70,509,810	87,089,960	106,080,960	99,355,000	136,799,000	123,286,000

333-1

April 26, 1928

Dear Governor Seay:

This is to confirm our telephone conversation of yesterday's date, following which I reported to the Board your advice to me to the effect that your directors at their meeting on April 12th, in voting to dispose of the bank's participation in the Open Market Investment Account did not have in mind the making of sales without first consulting the Open Market Investment Committee, nor that the bank's participation should be liquidated unless the other reserve banks did not concur in the views of your bank that the System's holding in the account should be liquidated, in which event your bank would dispose of its participation through the committee. I also reported to the members of the Board that your bank is satisfied with the present program of the committee, under which securities are being sold from the account and your bank's participation liquidated proportionately with the participations of the other banks.

I understood from you and so advised the Board that Mr. Hoxton's advice of action taken by your directors was given to us here merely for our information, and that it was not in the minds of the officers of your bank that any steps they might take to liquidate the bank's participation in the account should have the approval of the Federal Reserve Board.

Very truly yours,

R. A. Young,
GovernorMr. Geo. J. Seay, Governor,
Federal Reserve Bank,
Richmond, Va.AT BOARD MEETING
APR 27 1928

see letter 4/16/28

April 25, 1928.

333-81

The only specific power given to the Federal Reserve Board as regards purchases and sales of Government securities by Federal Reserve banks, is contained in Section 14 (b), stating that such purchases shall be made in accordance with rules and regulations prescribed by the Board. The Board, under this Section, is given the power to regulate, and probably it could prescribe, maximum and minimum amounts which could be sold during any one period, but it could not forbid sales or purchases absolutely, for the power to regulate is not the power to destroy.

In other words, the Federal Reserve Bank, under the Act, has been given a discretionary power which can be regulated but not taken away from the bank.

It should be noted that the Board is given power only to regulate purchases and sales of Government securities under Section 14. Under Section 13 it is given power not only to regulate but also to restrict and limit purchases and sales of acceptances and domestic and foreign bills. This latter power however, does not apply to purchases of Government securities.

The formation of the Open Market Investment Committee grew out of a voluntary agreement entered into between the Federal Reserve Board and the Federal Reserve banks. Under this agreement, the individual authority and discretion of each Federal Reserve bank to buy and sell Government securities is taken away, and the power is given to the Open Market Investment Committee and the Federal Reserve Board. I believe a Federal Reserve bank could withdraw from this agreement at

-2-

any time. As a voluntary arrangement, however, an agreement is most desirable, and has worked well in practice, every operation of the Committee having been approved by the Federal Reserve Board.

In my opinion, the Federal Reserve Board has no legal right under the Federal Reserve Act to create such a Committee, or to take over to itself such functions, except by voluntary arrangement. If it had such a right and should exercise it, it would be tantamount to making the Federal Reserve System a central bank operated from Washington. It might also be claimed, if it had such a right, that it could create a similar Committee to take charge of the fixing of discount rates of the individual Federal Reserve banks. I can not believe that any such power was intended to be granted by Congress to the Federal Reserve Board.

See X-3689 filed 4-4-23

87-111
April 25, 1928

The only specific power given to the Federal Reserve Board as regards purchases and sales of Government securities by Federal Reserve banks, is contained in Section 14 (b), stating that such purchases shall be made in accordance with rules and regulations prescribed by the Board. The Board, under this Section, is given the power to regulate, and probably it could prescribe, maximum and minimum amounts which could be sold during any one period, but it could not forbid sales or purchases absolutely, for the power to regulate is not the power to destroy.

In other words, the Federal Reserve Bank, under the Act, has been given a discretionary power which can be regulated but not taken away from the bank.

It should be noted that the Board is given power only to regulate purchases and sales of Government securities under Section 14. Under Section 13 it is given power not only to regulate but also to restrict and limit purchases and sales of acceptances and domestic and foreign bills. This latter power however, does not apply to purchases of Government securities.

The formation of the Open Market Investment Committee grew out of a voluntary agreement entered into between the Federal Reserve Board and the Federal Reserve banks. Under this agreement, the individual authority and discretion of each Federal Reserve bank to buy and sell Government securities is taken away, and the power is given to the

-2-

Open Market Investment Committee and the Federal Reserve Board. I believe a Federal Reserve bank could withdraw from this agreement at any time. As a voluntary arrangement, however, an agreement is most desirable, and has worked well in practice, every operation of the Committee having been approved by the Federal Reserve Board.

In my opinion, the Federal Reserve Board has no legal right under the Federal Reserve Act to create such a Committee, or to take over to itself such functions, except by voluntary arrangement. If it had such a right and should exercise it, it would be tantamount to making the Federal Reserve System a central bank operated from Washington. ~~It~~ might also be claimed, if it had such a right, that it could create a similar Committee to take charge of the fixing of discount rates of the individual Federal Reserve banks. I cannot believe that any such power was intended to be granted by Congress to the Federal Reserve Board.

FOR SPECIAL CIRCULATION

PLEASE READ PROMPTLY INITIAL AND RETURN TO SECTA'S OFFICE
 ✓ Gov. Young Mr. Hamlin ✓ Mr. James ✓ Mr. McIntosh ✓
 Mr. Platt ✓ Mr. Miller ✓ Mr. Cunningham ✓

FEDERAL RESERVE BANK
 OF NEW YORK

RECEIVED
 APR 24 1928
 FEDERAL RESERVE BANK
 OF NEW YORK

3

April 23, 1928

Dear Governor Young:

" In response to your request we have prepared a balance sheet, which shows the loss of gold since November 10, and the resulting increase in the use of Reserve Bank credit, together with changes in currency circulation, member bank reserve requirements, and the effect of security sales on Reserve Bank discounts, which are needed to complete the picture. The summary follows:

Change from November 10, 1927 to April 19, 1928
 (in millions of dollars)

Reserve fund changes

Gold loss (net of exports, imports and earmarking)...	-250	
Increase in member bank reserve balances	- 52	
Return of currency from circulation		+240
Total	-302	+240
Net loss of reserve funds	- 62	
Federal Reserve security holdings sold	-198	
Total loss of funds requiring added borrowing	-260	

In order to meet this draft upon the money market our member banks were required to borrow substantially this amount. It was taken in the following form:

Federal Reserve bill holdings	+ 10
Federal Reserve discounts	+234
Total	+244

Gold stock figures indicate domestic production of 16 million of gold during this period, which, added to the increase in Federal Reserve bill holdings and discounts, makes a total supply of reserve funds equal to the change in demand.

Except for the sale of securities, the return of currency from circulation would have largely offset the loss of gold; the increase

see ans 4/27/28

FEDERAL RESERVE BANK OF NEW YORK

2.

Governor Young,
Federal Reserve Board,
Washington, D.C.

Apr. 23/28

in discounts would have been comparatively small; and rates in the New York money market would have been considerably lower."

Yours very truly,


J.H. CASE,
Deputy Governor.

Federal Reserve Board,
Washington, D.C.

Noted
AT BOARD MEETING
APR 27 1928



333.-1

April 18, 1928.

R. A. Y.
MAY 2 1928

Dear Mr. Case:

I read to the Board, at its meeting this morning, your letter of April 17th, advising that since April 11th sales of securities from the Open Market Investment Account have totalled \$47,370,000, reducing the account at the close of business on April 18th to \$201,000,000. The Board noted from your letter that during the period a total of \$92,000,000 was taken from the money market, including, in addition to the securities sold, \$20,000,000 of acceptances turned over to a foreign correspondent in exchange for a like amount of June 15th Treasury certificates to be sold to the Treasury today and the earmarking of \$25,000,000 of gold for account of the Bank of France.

Very truly yours,

Edmund Platt,
Vice Governor.

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

Reproduced by

CONFIDENTIAL
APR 19 1928
333-61

FEDERAL RESERVE BANK
OF NEW YORK

Handwritten signature
CONFIDENTIAL

APR 21 1928

April 18, 1928.

Dear Governor Young:

In order that you may have the information before you promptly upon your return to your desk tomorrow, I am enclosing copy of my letter of April 17 to Mr. Platt, which contains a resumé of open market investment and other transactions that will affect the money market.

Very truly yours,

J. H. Case
J. H. CASE,
Deputy Governor.

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

Enclosure.

4/17/28.

333, ~~8-1~~

CONFIDENTIAL

April 17, 1928.

Dear Governor Platt:

IN RE: Open Market Investment Account

Last Wednesday and Thursday, before Governor Young left for his trip south, we had as you know a talk concerning the Open Market Investment Committee's contemplated sales during the ensuing week; and it occurs to me that you and your associates may be interested in having a complete resume of what has been done in this regard, as well as of other important pending transactions that will have an effect on the money market.

(1) Total sales, between the close of business Wednesday, April 11, 1928, and the close April 18, 1928, amounted to \$47,370,000, made up as follows:

Transactions consummated and reported as of:

April 12, 1928	\$ 6,770,000.
April 14, 1928	2,500,000.
April 16, 1928	26,000,000.
April 17, 1928	2,100,000.
April 18, 1928	<u>10,000,000.</u>

TOTAL\$47,370,000.

This will leave the System Special Account, as at the close of business April 18, 1928, \$201,000,000., as against \$247,000,000. reported a week ago.

(2) At the request of one of our foreign correspondents, the Federal Reserve Bank of New York is today supplying them with a total of \$20,000,000. bankers' bills, which now appear on our statement under the caption "Sales Contrasts," and is simultaneously taking over from the foreign correspondent \$20,000,000. of U. S. Government 3 1/8% Treasury certificates due June 15,

Encl. with 418-28 from Case

2. Governor Platt.

4/17/28.

1928, for resale to the U. S. Treasury tomorrow, April 18, 1928. The initial effect of this transaction today will be merely to reduce our portfolio of bill holdings by \$20,000,000. and to increase our holdings of Government securities by a like amount; but, as the Treasury is drawing down balances from depository banks in order to pay us for the Treasury certificates tomorrow, this will presently have the effect also of taking \$20,000,000. of funds from the money market.

(3) Another item of major importance is the fact that we have been instructed by the Bank of France to earmark \$25,000,000. in fine gold bars tomorrow April 18. Payment for these bars will be made out of funds withdrawn from the market, \$3,000,000. today, and \$22,000,000. tomorrow.

When these transactions have been consummated, the money market will have lost an aggregate of \$22,000,000., made up as follows:

Sales from Open Market Investment A/C	\$47,000,000.
Sales to Treasury from portfolio of Federal Reserve Bank of New York	20,000,000.
Earmarked gold for foreign correspondent	<u>25,000,000.</u>
TOTAL	<u>\$92,000,000.</u>

Under these circumstances, probably it will be desirable to defer any further immediate action.

Very truly yours,

J. H. CASE,
Deputy Governor.

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

FEDERAL RESERVE BANK
OF NEW YORK

333-61

CONFIDENTIAL

2

April 17, 1928.

Dear Governor Platt:

IN RE: Open Market Investment Account

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Read
BOARD MEETING
APR 18 1928

see memo 4/18/28

FEDERAL RESERVE BANK OF NEW YORK

2.

Governor Platt

4/17/28

effect of this transaction today will be merely to reduce our portfolio of bill holdings by \$20,000,000. and to increase our holdings of Government securities by a like amount; but, as the Treasury is drawing down balances from depository banks in order to pay us for the Treasury certificates tomorrow, this will presently have the effect also of taking \$20,000,000. of funds from the money market.

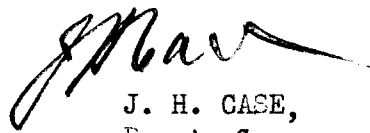
(3) Another item of major importance is the fact that we have been instructed by the Bank of France to earmark \$25,000,000. in fine gold bars tomorrow, April 18. Payment for these bars will be made out of funds withdrawn from the market, \$3,000,000. today, and \$22,000,000 tomorrow.

When these transactions have been consummated, the money market will have lost an aggregate of \$92,000,000., made up as follows:

Sales from Open Market Investment A/C . . .	\$47,000,000.
Sales to Treasury from portfolio of Federal Reserve Bank of New York	20,000,000.
Earmarked gold for foreign correspondent	<u>25,000,000</u>
TOTAL	<u><u>\$92,000,000</u></u>

Under these circumstances, probably it will be desirable to defer any further immediate action."

Very truly yours,


J. H. CASE,
Deputy Governor.

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

*Assign
posting*

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*333
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FEDERAL RESERVE BANK
OF RICHMOND

*332 12
333-61*

April 16, 1928.

Mr. Edmund Platt, Vice Governor,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Platt:

I have your letter of April 13th advising me that the Board has noted that our Directors on April 12th, following their action in making no change in our existing discount rate, directed that the investment securities now carried by the bank be sold off in an orderly manner at the discretion of the officers. You further express your understanding that this action relates to the independent holdings of our bank, outside of our participation in the System account. Our independent holdings consist of bonds bearing the circulation privilege, and our purpose is to rid our portfolio of the bonds which we have acquired from the special investment account. These bonds amounted on the date of your letter to \$6,617,000., but the total has since been reduced. In taking this action, our Board had in view the country wide inflation of credit, and desired to relieve this bank of its responsibility for the continuance of Federal Reserve funds in a market which is already inflated.

This is a comparatively small bank and our contribution to the present situation is insignificant. However, the principle is the same for large and small, and we think that the National credit supply should be diminished, at least, by that amount for which the Federal Reserve System is responsible.

Very truly yours,

W. W. Hoxton
Wm. W. Hoxton,
Chairman of the Board.

Laid on table

AT EXECUTIVE COMMITTEE
MEETING,

APR 17 1928

(Handwritten mark)

See Minutes

AT BOARD MEETING
APR 24 1928

see ans 4/25/28

Credit Policy Rates

5

333.1

~~332.12~~

April 13, 1928.

333.6.1

Dear Mr. Hoxton:

Your letter of April 12th was brought to the attention of the Board this morning, and it was noted that your directors on April 12th, following their action in making no change in your existing rate, directed that the investment securities now carried by the bank be sold off in an orderly manner at the discretion of the officers. It is understood that this action relates to the independent holdings of your bank, outside of its participation in the System account, which amounted on April 11th to \$1,153,000.

Very truly yours,

Edmund Platt,
Vice-Governor.

Mr. W. W. Hoxton, Chairman,
Federal Reserve Bank,
Richmond, Va.

Prepared by

see ans 4/16/28

FEDERAL RESERVE BANK
OF RICHMOND

333-b-1

April 12, 1928

Federal Reserve Board,
Washington, D. C.

Gentlemen:

I have just advised you by telegraph that our Board of Directors, in meeting today, voted no change in existing schedule of rates. Accompanying this action, and as a result of our deliberations upon the questions of credit supply and rate, the following motion was made and unanimously carried:

"To aid in protecting the credit supply and in preventing further inflation, which has occurred for the second time within ten years, the Directors of this bank believe it to be necessary that the investment securities of the System be sold in the Open Market, and they direct that the investment securities now carried by this bank be sold in an orderly manner at the discretion of the officers.

V/P
See page 5 of
memo

If inflation is not decisively checked, the Directors of this bank believe that it will be necessary to raise the discount rate."

Very truly yours,

Wm. W. Hoxton
Chairman of the Board

4/11/28
System participation
6,617,000
New Account
1,153,000

Noted

AT RICHMOND, VIRGINIA
MEETING,

APR 13 1928

See ans 4/13/28

FOR SPECIAL CIRCULATION

PLEASE READ FROM Y. ... TIAL AND RETURN TO SECR ... RI'S OFFI
Gov. Young ✓ Mr. Hamlin ✓ Mr. James ✓ Mr. ... *absent*
Mr. Platt *ER* Mr. Miller ✓ Mr. Cunningham *absent*

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
APR 12 1928
THE GOVERNOR

323-41

PERSONAL AND CONFIDENTIAL

April 11, 1928.

Dear Governor Young:

Supplementing our conversation by telephone
this morning, I am transmitting herewith a resumé of the
current credit situation (as it looks to us here) from
which it seems quite clear that, for the present, we
should continue to make moderate sales of Government
securities from the Open Market Investment Account.

Very truly yours,

J. H. Case
J. H. CASE,
Deputy Governor.

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

Enclosure.

Carputer
noted

Please circulate

Yours

AT EXECUTIVE COMMITTEE
MEETING,

APR 17 1928

(Signature)

April 11, 1928

11 The Credit Situation at the Beginning of April 1928.

The principal developments in credit and business during the past two months have been the following:

- Gradual advance in money rates,
- Continued outflow of gold,
- Moderate recovery in industrial activity,
- Substantial increase in commercial loans of reporting banks,
- Unusual activity in stocks, prices advancing to new high levels,
- Increase in brokers' loans to higher level than ever before,
- Substantial increase in the demand for Reserve Bank credit.

1/4/28

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Money Rates

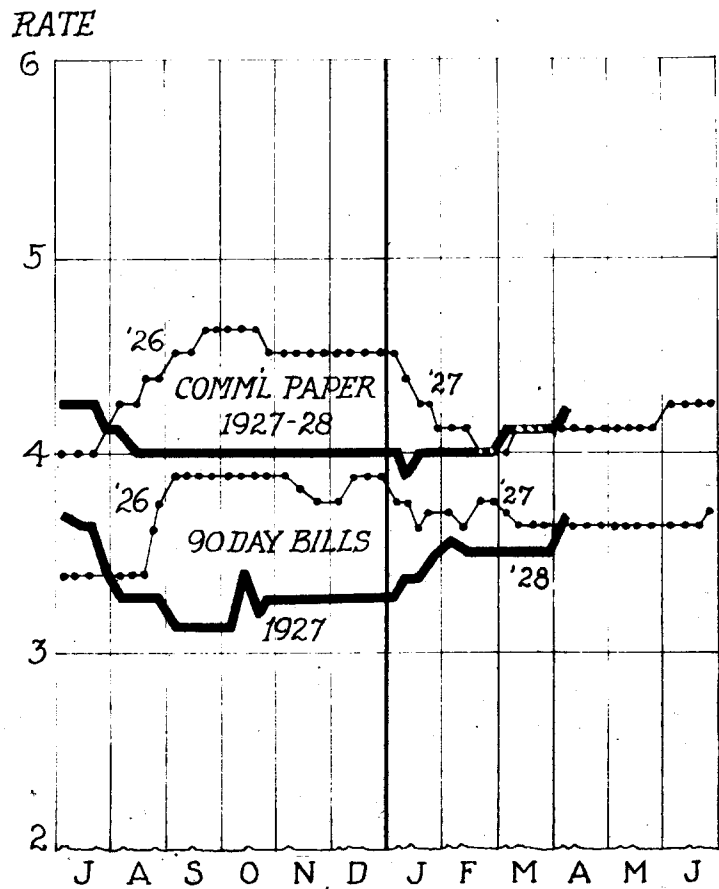
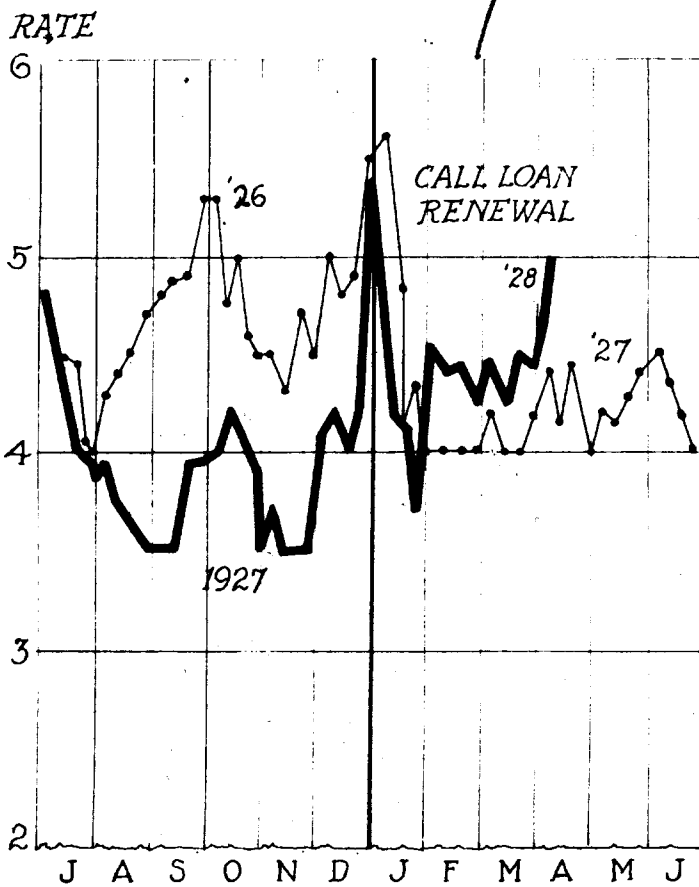
The accompanying diagram indicates that money rates have shown an upward trend since the end of January, which, however, was quite gradual until within the past two weeks. The recent advance has carried rates considerably above the levels that prevailed last autumn, and also moderately above a year ago:

	1927		1928
	Sept. to Nov.	Average	April 10
Call money - - - - -	4 1/4 - 4 1/2	3.77	5 1/2--6
Time money, 90 day - - - - -	+ 1/2	4 1/8 - 4 1/4	4 7/8
Commercial paper - - - - -	4 - 4 1/4	4	4 1/4
Bills, 90 day - - - - -	3 5/8	3 1/8 - 3 1/4	3 3/4

Until recently the effects of sales of securities from the System Account, the advance in rediscount rates, and some further loss of gold were partly offset by a heavy flow of funds from other districts. This movement, which continued almost without interruption from the first of the year until income tax collections caused the usual withdrawals from New

5 1/2 - 6

I Money Rates at New York, 1927-28 Compared with 1926-27.



York after March 15, is shown in Chart II. During January the flow of funds to New York apparently was due to an unusually large retirement of currency from circulation and to the fact that a considerable part of the proceeds was transferred to New York instead of being used to retire indebtedness at the Reserve Banks. In February and the early part of March the continued movement of funds to New York was accompanied by an increase of about 100 million dollars in borrowings from Reserve Banks other than the New York Bank. (Chart III)

A renewed gold export movement in March, the effect of which did not appear until the Treasury tax period overdraft was eliminated, together with a small reduction in the System Account, was reflected in a general, though moderate, advance in money rates near the end of March. The sharp advance in call money rates since the first of April has accompanied an unusually rapid increase in borrowings of New York City members from this bank, which in turn appears to have been due to the following circumstances:

Month-end and Easter currency requirements in Second District,

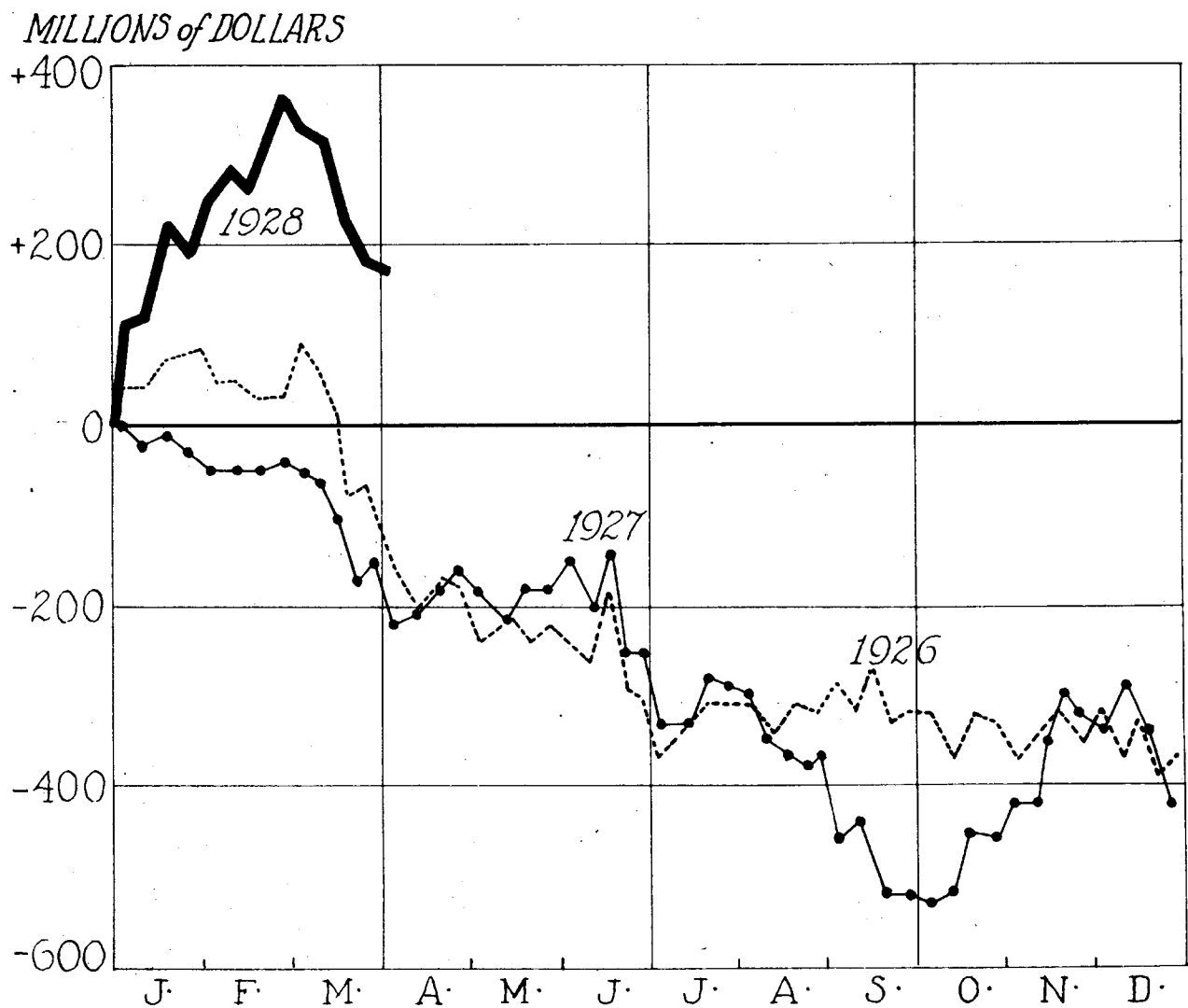
Loss of about 100 million dollars in transfers to other districts (probably reflecting currency requirements and collection of April 1 coupons and dividend checks),

Increase in member bank reserve requirements, the result of a large increase in security loans, following a considerable increase in commercial loans.

The usual tendency would be for funds to return to New York during the coming week, and for currency to be retired from circulation, with a resulting liquidation of member bank indebtedness here and an easing of call money rates.

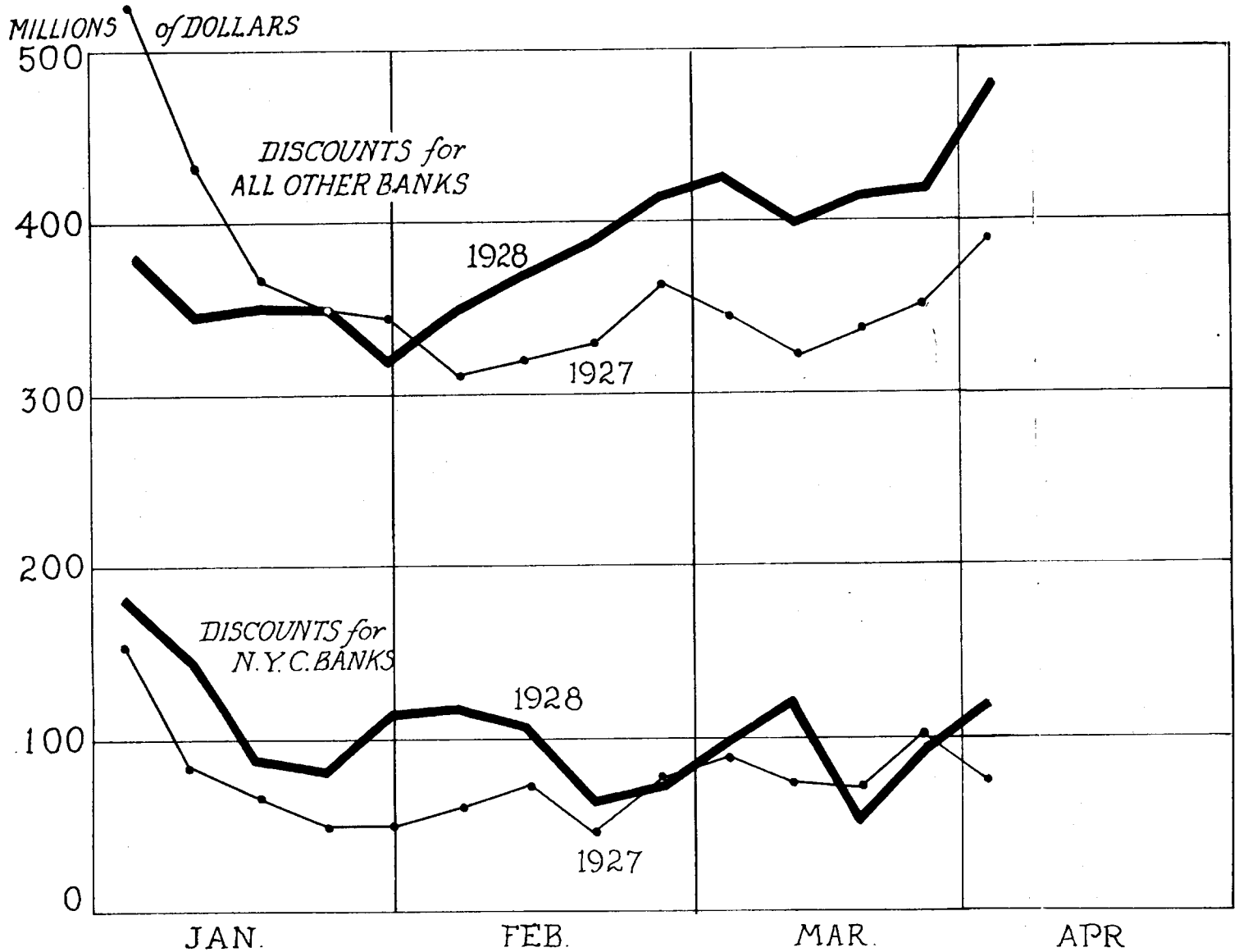
Sp. 1623

II Estimated Commercial Transfers between the New York Federal Reserve District and Other Districts (Gain or Loss to New York).



Sp. 1602.1

III Federal Reserve Bank Discounts for Members.
(figures are weekly averages)



Demand for and Supply of Reserve Funds



Since the general level of money rates tends to correspond closely to the amount of member bank indebtedness at the Reserve Banks, a summary of the demand for, and supply of reserve funds, which, in order to avoid the complication of seasonal variations, may be made in the form of a comparison with the corresponding period last year, will indicate the reason for a moderately high level of money rates at the present time. The approximate figures for the first week of April 1928, compared with a year ago, are as follows:

(in millions of dollars)

Change in demand for reserve funds due to:

Gold loss - - - - -	+ 293	
Increase in reserve balances - - - - -	+ 154	
Reduction in currency circulation (See chart IV)		<u>- 135</u>
Total - - - - -	<u>+ 447</u>	<u>- 135</u>
Net Total - - - - -	+ 312	

Change in supply of reserve funds through:

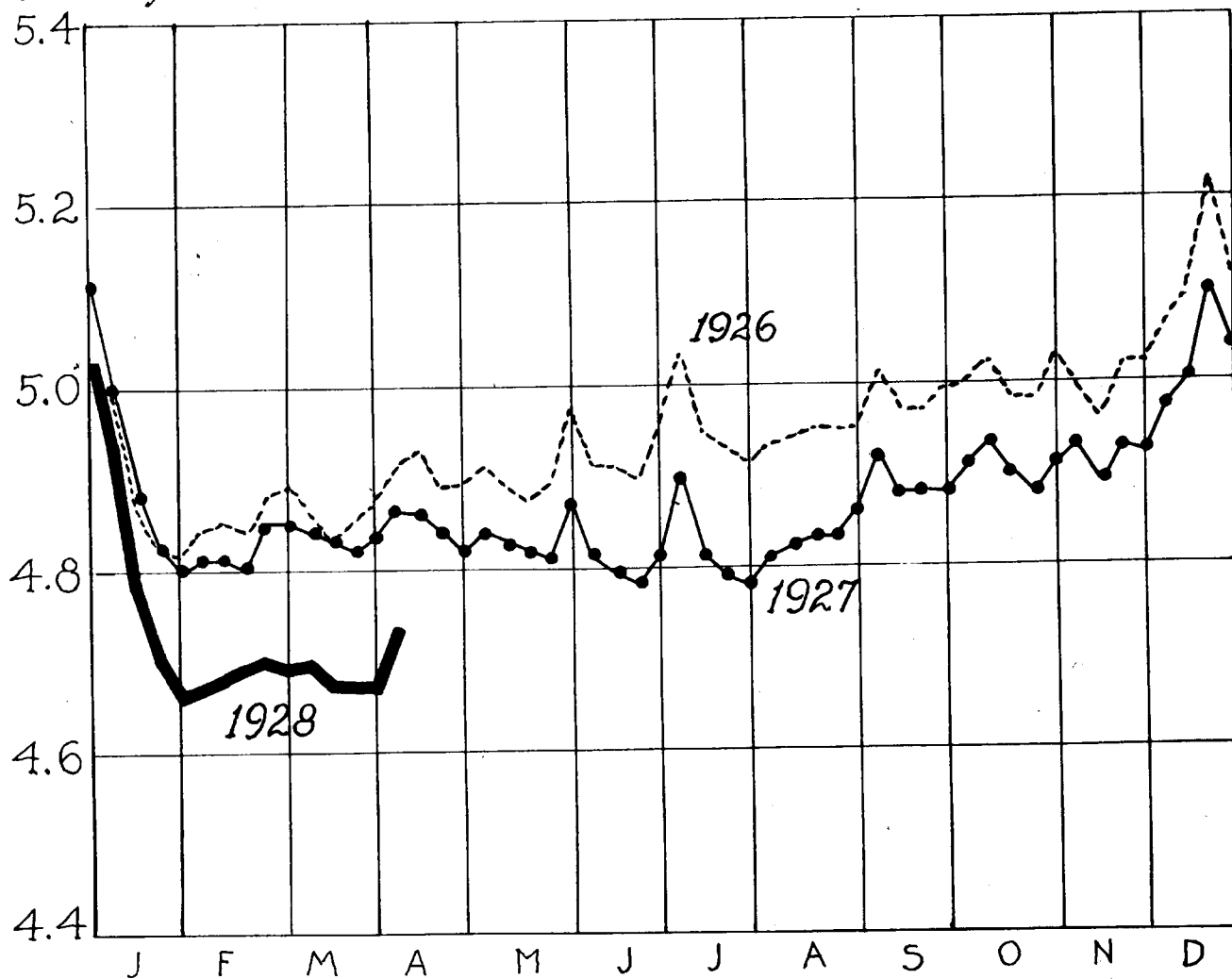
Federal Reserve security holdings - - - - -	+ 42
" " bill holdings - - - - -	+ 105
" " discounts - - - - -	<u>+ 173</u>
Total F. R. bills & securities -	+ 319

This indicates a net increase in the demand for reserve funds, largely due to gold exports and earmarkings, of over 300 million dollars, a little less than half of which has been supplied through net increases in Reserve Bank bill and security holdings, the remainder of which member banks have had to obtain through borrowing from the Reserve Banks. Nearly 100 million of the increase in borrowing has occurred within the past week, due partly to a considerable increase in member bank reserve requirements accompanying credit expansion, and partly to currency with-

drawals.

IV Weekly Estimates of Currency in Circulation in the U. S.

BILLIONS of DOLLARS



Business Recovery and Commercial Loans

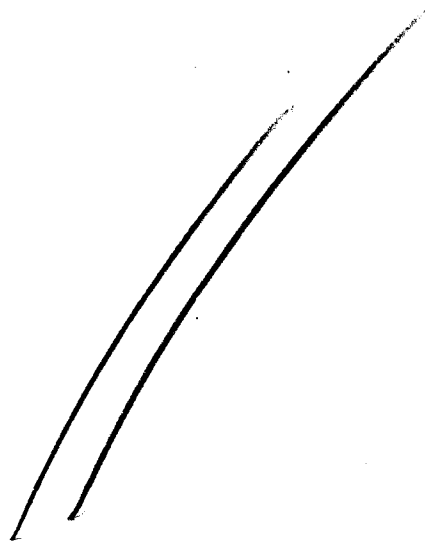
Industrial activity in general appears to have largely recovered from the decline at the end of 1927, although there is still considerable irregularity. Steel output in March was nearly equal to the unusually large production of March 1927, and automobile production is reported to have been slightly larger than a year ago. The majority of other industries also have shown more than seasonal increases in output during the first three months of this year. The outstanding exception is the cotton goods industry, which in March was still operating at a comparatively low level. Accompanying this increase in industrial activity, commercial loans of reporting banks have shown the largest increase for a similar period in recent years. (See Chart V)

Data on distribution have not shown corresponding gains. Department store sales reduced to a daily basis were somewhat smaller than last year in January and February, and only slightly larger in March, (notwithstanding the fact that Easter was earlier this year, so that a larger proportion of Easter business was done in March). Car loadings have shown about the usual seasonal increase and remain smaller than last year, and bank debits outside of the leading financial centers have shown only small increases over 1927.

Commodity Prices

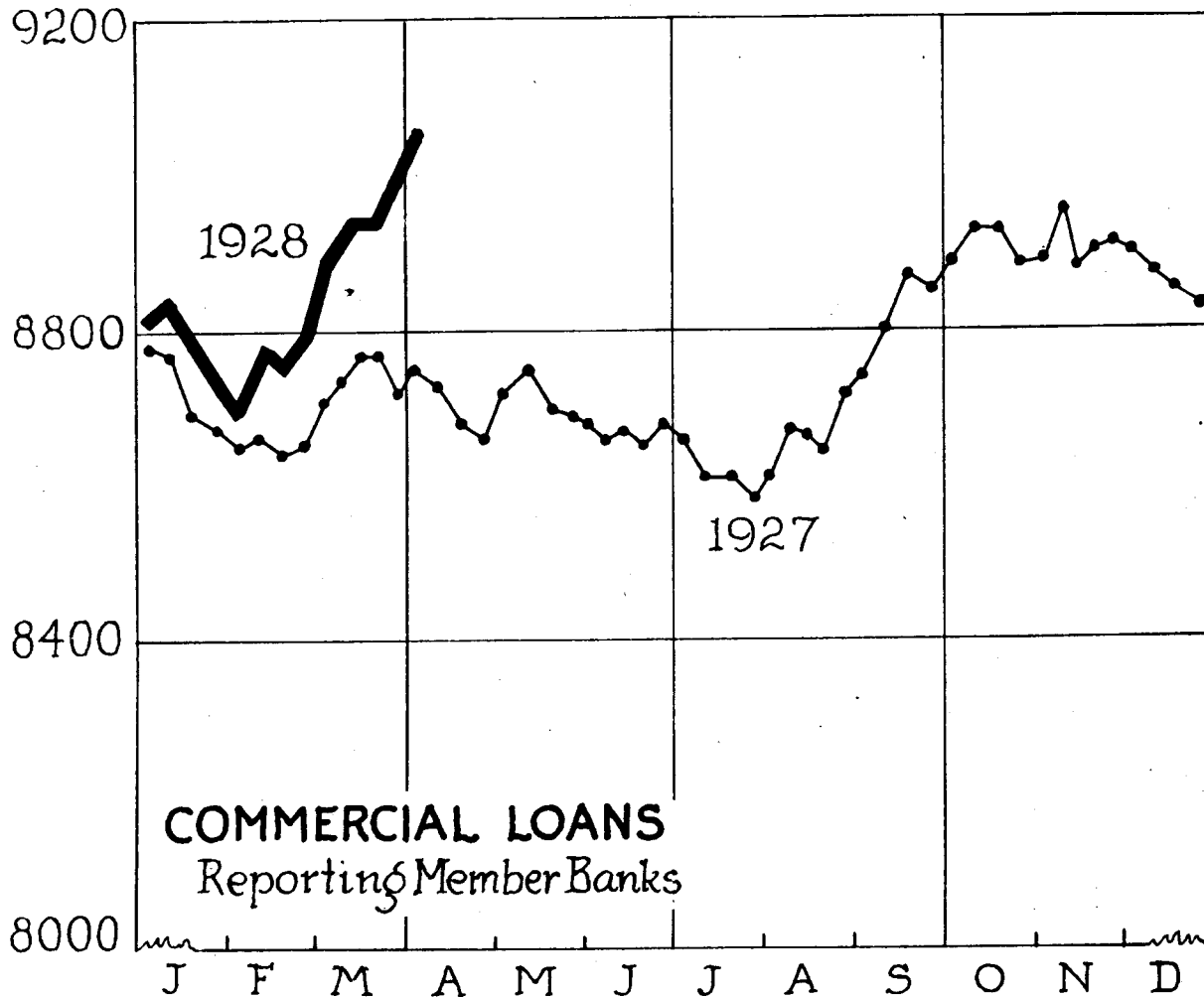
Commodity prices in general have shown very little change since the first of the year. Our index of basic commodity prices declined gradually in January and February, but has subsequently advanced slightly. More inclusive indexes of all types of commodities at wholesale have shown practically no change during the first three months of this year.

R 1612



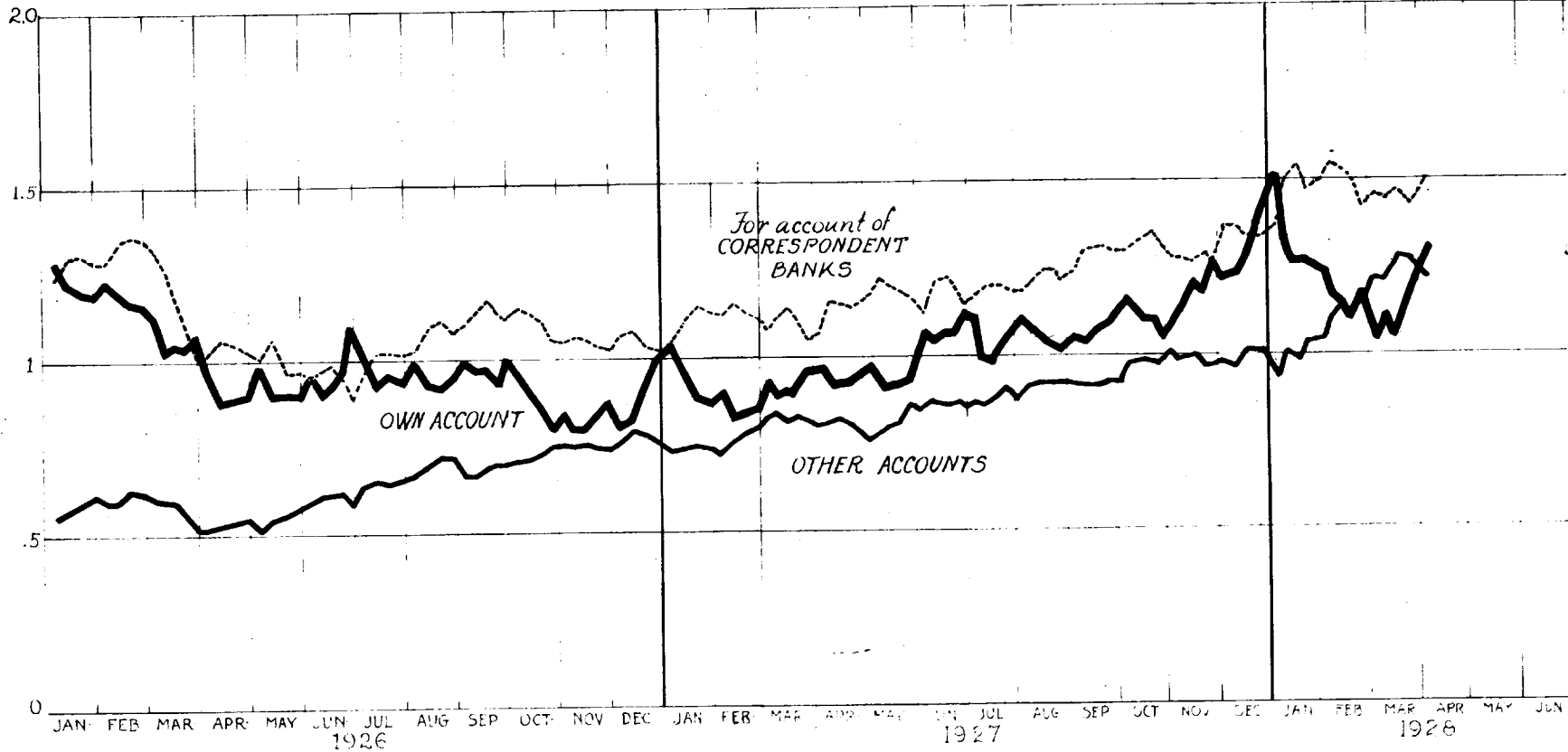
V Commercial Loans of All Reporting Member Banks, 1928 compared with 1927.

MILLIONS of DOLLARS



VI Loans to Brokers Placed by New York City Banks for Own Account, for Correspondent banks, and for Others.

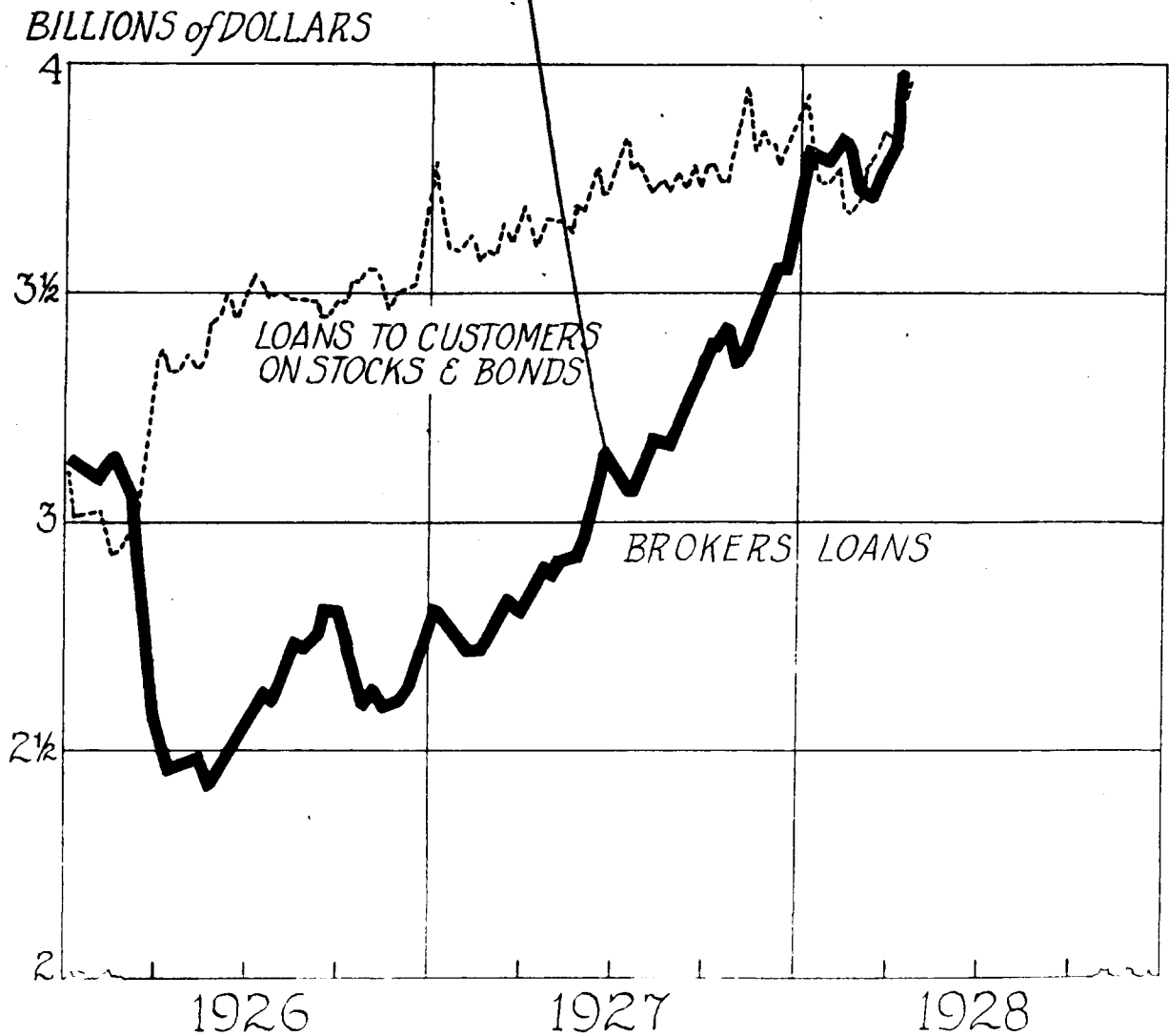
BILLIONS OF DOLLARS



Same as two years ago.

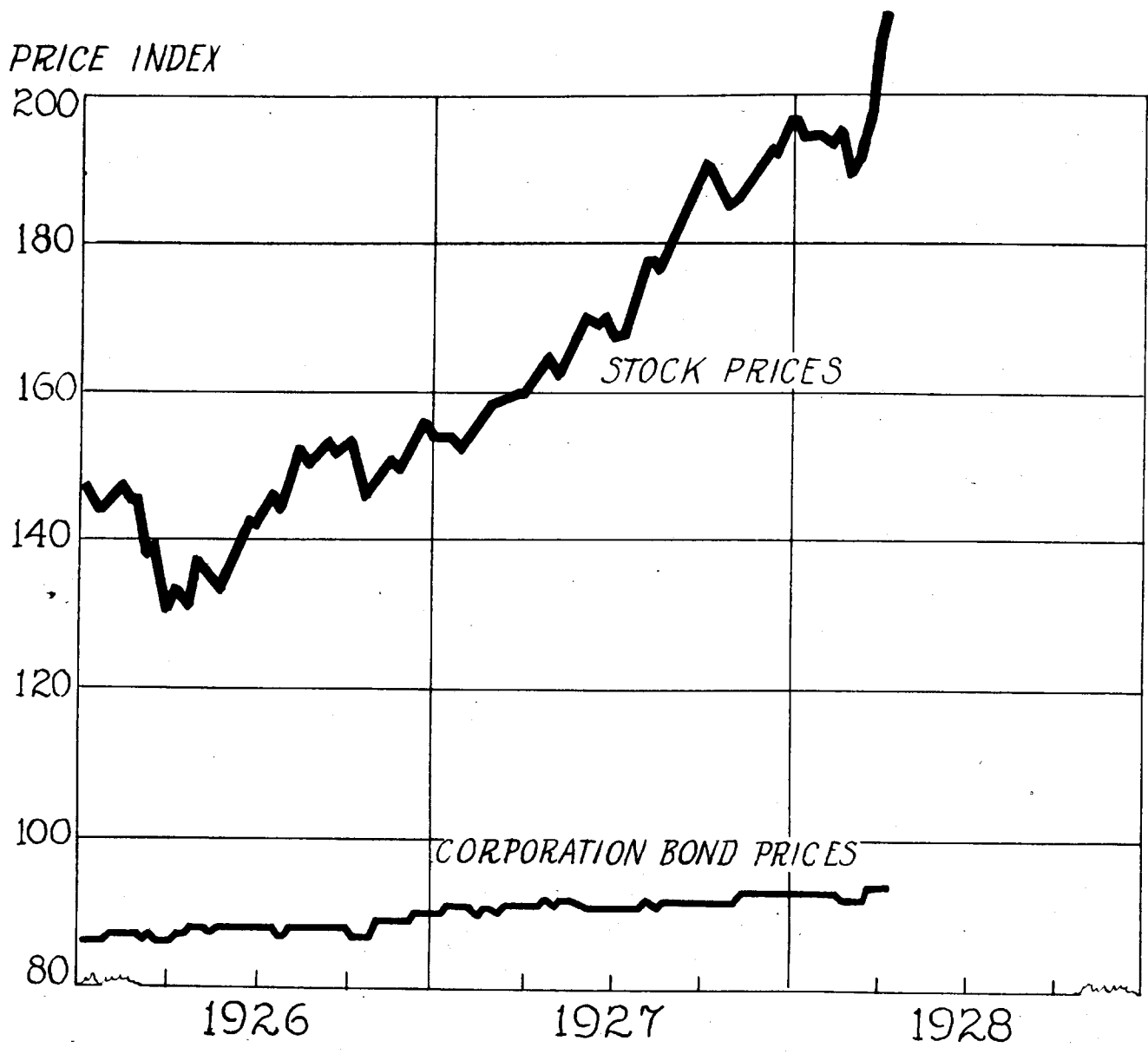
~~This~~ index is both bank and individual account.

VII Loans to Brokers and Dealers in Securities, and Estimated Loans to Customers on Stocks and Bonds.



R.1594

VIII Prices of 228 Stocks (Standard Statistics Company Index) and of 40 Domestic Bonds (New York Times Average).



Renewed Rise in Stock Prices and Security Loans

Following a period of moderate recession in January and February, the volume of stock trading during recent weeks has been larger than ever before, and stock prices have risen with a rapidity that has seldom been equaled. For a time the rise in prices was not reflected in member bank security loans to any great extent, apparently due in part to funds received by the market from sources other than banks (Chart VI), but in the week ended April 4 member bank security loans increased 275 million dollars and were larger than at any previous time, with the exception of the temporary high point at the first of the year. (Chart VII)

The Standard Statistics Company index of prices of 228 stocks is 33 per cent higher than a year ago (Chart VIII), when prices were then higher relative to either earnings or dividends than in a number of years. Apparently the recent advance was based on the feeling that there was an immense amount of idle funds in the country which were not needed for business purposes, and an impression that Federal Reserve discount rate changes and security operations had been largely ineffective and that the moderate advance in money rates was seasonal and would be followed shortly by a seasonal decline in rates. The advance in call money to 5, 5 1/2 and 6 per cent appear to have caused some doubts as to the plentifulness of money and to have resulted in some hesitancy in the stock market.

Conclusions:

(1) The effect of Reserve Bank security operations and advances in rediscount rates on money rates in New York has been partly counteracted until recently by a large movement of funds from other districts, which was made possible by an unusually large contraction in currency circulation, and by an increase in borrowings from other Reserve Banks.

(2) Industry has largely recovered from the recent decline, but, in general, is not unusually active; distribution appears to have shown no corresponding increase.

(3) Stock prices, and consequently brokers loans, have reached higher levels than ever before; the advance seems to have been based on the belief that the rise in money rates was largely seasonal and would be followed soon by a seasonal decline, and that the credit supply was ample for stock operations as well as general business.

(4) Indebtedness of New York City member banks amounting to about 150 to 200 million dollars, which is likely to be accompanied by a call money rate of 5 to 5 1/2 per cent, appears to be necessary to check the expansion of loans for stock trading purposes.

(5) Further Reserve Bank sales of securities will probably be required within the near future to keep indebtedness of New York City banks and call money rates at these levels, as the recent increase has been based partly on temporary influences. //

Y. A. 7 1928
 R. A. 7 1928

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 3-28-28.

HOLDINGS OF U. S. SECURITIES OTHER THAN THOSE ACQUIRED
 THROUGH REPURCHASE AGREEMENT AND SPECIAL INVESTMENT ACCOUNT

(In thousands of dollars)

Federal Reserve Bank	Holdings on		Change since	
	Dec. 31, 1927	April 4, 1928	Dec. 31, 1927	March 28, 1928
Boston	689	707	+ 18	-
New York	17,425	1,514	-16,041	+ 130
Philadelphia	15,186	15,186	-	-
Cleveland	26,236	26,309	+ 73	-
Richmond	1,153	1,153	-	-
Atlanta	3,650	2,693	- 957	+ 36
Chicago	19,927	19,927	-	-
St. Louis	16,619	16,626	+ 7	-
Minneapolis	7,558	7,584	+ 26	-
Kansas City	9,633	9,732	+ 99	-
Dallas	9,029	9,984	+ *955	- 6
San Francisco	9,693	9,697	+ 4	-
System	136,798	121,112	-15,816	+ 160

*Treasury notes.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date March 28, 1928

To Governor Young.

Subject: 333. - 1

From _____

APR 27 1928
F. A. Y

Mr. Case just telephoned the following:

Call money renewed at 4-3/4% and as there was no supply, it has gone to 5%.

As to the open market account, I sold \$1,000,000 yesterday and about \$14,000,000 for delivery today, making a total of \$15,000,000, bringing the account down to \$258,000,000, just where it was a week ago last Wednesday.

The stock market is still fairly strong but not nearly so active as it was yesterday. I suspect that they will begin to take cognizance of the money situation before the day is over.

9,000,000 to Germany
7,000,000 to Italy - Friday
Not earmarked

333.-6-1
3-27-28

Letter from Board

The Federal Reserve Board has considered the resolution adopted by the Open Market Investment Committee at its meeting to-day.

The Board approves the policy recommended by the Committee, the progress of the execution of which the Board understands will be reported at frequent intervals by the Chairman.

- ① Approval of 11/2/28
- ② ~~Insurance~~ - insurance of sale
- ③ Securities outside of any market committee
- ④ Present policy
- ⑤ Rediscout rate
- ⑥ Recommendation of committee
- ⑦ Committee does not know what it is all about.

FEDERAL RESERVE BANK
OF NEW YORK

MAR 29 1928
333-61

[Handwritten signature]

March 27, 1928.

Dear Governor Young:

IN RE: Open Market Investment Account

For Governor Strong I acknowledge with thanks the receipt of your letter of March 26, 1928 to him, which contains a resolution adopted by the Federal Reserve Board at its meeting on that date.

Very truly yours,

[Handwritten signature]

J. H. CASE,
For the Chairman,
Open Market Investment
Committee.

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

[Handwritten checkmark]

338. - 6-1

March 26, 1938

Dear Governor Strong:

Carried

At the meeting of the Board this afternoon consideration was given to the report and recommendations of the Open Market Investment Committee, submitted to the Board by the Committee following its meeting this morning. In the light of the statements made by members of the Committee at its meeting with the Board, particularly those assuring the Board that the proposed operations of the Committee were not to be carried to a point necessitating, as a direct result thereof, an increase in the rediscount rate, the Board adopted the following resolution:

Whereas, at a meeting of the Federal Reserve Board and the Open Market Investment Committee held on January 12, 1938, it appeared to the members of the Board and the Committee that operations in the Open Market Investment Account of the Federal Reserve System should be directed toward bringing about somewhat firmer money conditions, as far as necessary to check unduly rapid further increases in the volume of credit;

Whereas, the Federal Reserve Board in line with the policy agreed upon on January 12, 1938, voted to authorize the Open Market Investment Committee to make sales of Government securities from the System Account from time to time during the following two months, and also authorized the Committee temporarily to purchase such securities should developments not then in sight require such action;

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

Whereas, the Federal Reserve Board at this meeting has considered the written recommendation made by the Open Market Investment Committee today and the verbal assurance received from the members of the Committee that the operations in the Open Market Investment Account should be conducted with a view to

see memo 3/27/38

- 2 -

"making more effective, and not increasing, prevailing rediscount rates of the Federal Reserve banks;

Now, Therefore, Be it resolved, That the Federal Reserve Board approve the policy recommended by the Open Market Investment Committee in its written and verbal reports of this date and authorize said Committee to make further sales of Government securities from time to time up to May 1, 1938, at about which time another meeting of the Committee with the Federal Reserve Board will be held unless a change in the situation makes earlier reconsideration desirable."

Very truly yours,

R. A . Young,
Governor.

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

This article is protected by copyright and has been removed.

The citation for the original is:

“March 15 Turnover of \$2,000,000,000.” The New York Times, March 14, 1928.

FOR SPECIAL CIRCULATION 3/15

PLEASE READ PROMPTLY, INITIAL AND RETURN TO SECRETARY'S OFFICE

Gov. Young Mr. Hamlin ✓ Mr. James ✓ Mr. McIntosh ✓
 Mr. Platt ✓ Mr. Miller ✓ Mr. Cunningham ✓

FEDERAL RESERVE BANK
 OF NEW YORK

MAILED 15 1928
 333-76-1

CONFIDENTIAL

March 14, 1928.

Dear Governor Young:

Supplementing our daily informative letter to the Federal Reserve Board concerning gains and losses to the money market, I desire to summarize a few of the larger and more important transactions which are likely to take place tomorrow, particularly those affecting the Open Market Investment Account.

In the first place, due to the very heavy redemptions in this market of U. S. Treasury obligations maturing March 15, 1928, we estimate that the Treasurer's overdraft with us (which will be covered by a one-day certificate carrying $3\frac{1}{4}\%$ interest) will approximate \$250,000,000, with a resultant very heavy gain to the money market, which, if not dealt with in any way by us, would not only enable the city banks to liquidate their entire indebtedness to us, but would probably furnish them with something more than \$100,000,000 in excess reserves. This would naturally be followed by considerable competition among the banks to get their money temporarily invested and would probably result in a reduction in the call money rate down to 4% or possibly $3\frac{1}{2}\%$.

In order to stabilize conditions over the tax period, it has, as you know, been our custom either to make temporary sales of Government securities from the Open Market Investment Account or, latterly, to sell to our member banks day-to-day participations in the one-day temporary certificate of the Government during the four or five days in which the tax checks are collected.

During the past year or so our problem on quarterly tax days has been increased by the very large amount of maturities of Government obligations held for account of foreign correspondents, agency accounts of the Treasury, etc.

FEDERAL RESERVE BANK OF NEW YORK.

Governor F. Ag.

3/14/28.

Such maturities tomorrow amount to no less than \$165,000,000! Customarily we are requested to reinvest these maturities in other U. S. Government obligations, and we necessarily have to be prepared to furnish those accounts, for reinvestment, with the particular and specific maturities which they desire. This point can best be illustrated by saying that our reinvested orders in the June 15 maturity from foreign correspondents and the Treasury alone aggregate \$110,000,000. We are enabled to fill these orders only by reason of the fact that we hold some \$90,000,000 of June 15 maturities in the Open Market Investment Account, the balance being acquired in the outside market for delivery here tomorrow.

As we advised you in our letter of February 10, it is planned to continue the Open Market Investment Account at about the level then agreed to; viz., \$275,000,000. However, under the easy money market conditions which are likely to exist here tomorrow, we are proposing to have a temporary "lag" in the delivery of some \$85,000,000 of short-term Government securities purchased to replace the June 15 maturities which we are selling for delivery tomorrow.

To sum up: the Open Market Investment Account tonight will stand at about \$270,000,000. The securities sold from this account to foreign correspondents, the Treasury, etc., for delivery tomorrow, will aggregate \$130,000,000. The securities purchased for delivery tomorrow in replacement will aggregate but \$50,000,000, leaving the account, at the close of business tomorrow night, at approximately \$190,000,000. The balance of \$85,000,000 of short-term securities which have been purchased and delivery on which it is proposed to delay, will come in partly on Friday, Saturday and Monday. These delayed transactions should synchronize more or less with the payment of tax checks and thus keep a better semblance of order in our money market. In accordance with our usual custom, we are also planning to sell, tomorrow, to such member banks as are over in their reserves, participations in the one-day Treasury certificate covering its overdraft. It is estimated that such sales may amount to \$100,000,000 or more.

FEDERAL RESERVE BANK OF NEW YORK

Governor Young

3/14/28.

It has occurred to me that in furnishing you this information in advance, you and your associates will be in position to better understand our balance sheet at the close of business March 15.

Very truly yours,



J. H. CASE,
Deputy Governor.

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

Noted
AT BOARD MEETING
MAR 22 1928


Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date March 13, 1928.

To Governor Young

Subject: 333-6-1

JS
From Mr. Smead

In accordance with your request, I am giving below the amount of U. S. securities held by each Federal reserve bank other than special investment account and under repurchase contracts on four dates during the past year.

	<u>Dec. 31, 1926</u>	<u>Oct. 5, 1927</u>	<u>Dec. 31, 1927</u>	<u>Mar. 7, 1928</u>
Boston	\$829,000	\$705,000	\$689,000	\$708,000
New York	1,356,000	1,357,000	17,425,000	3,384,000
Philadelphia	15,008,000	15,184,000	15,186,000	15,185,000
Cleveland	22,140,000	25,532,000	26,236,000	26,965,000
Richmond	1,241,000	1,241,000	1,153,000	1,152,000
Atlanta	1,890,000	3,087,000	3,650,000	3,512,000
Chicago	19,927,000	19,933,000	19,927,000	19,928,000
St. Louis	6,503,000	16,620,000	16,620,000	18,010,000
Minneapolis	7,568,000	7,558,000	7,558,000	7,585,000
Kansas City	9,473,000	9,813,000	9,633,000	9,734,000
Dallas	3,736,000	8,382,000	9,029,000	9,994,000
San Francisco	9,684,000	9,695,000	9,693,000	9,696,000
Total	99,355,000	119,107,000	136,799,000	125,853,000

Since January 1, 1927, the banks have increased their own investment holdings of U. S. securities by about \$26,000,000, the principal increases having been as follows:

St. Louis	\$11,500,000
Dallas	6,200,000
Cleveland	4,800,000
Atlanta	1,700,000
New York	2,000,000

The \$136,799,000 held on December 31, 1927, was made up of the following securities:

Panamas	1936-8	2%	\$237,360
Panamas	1961	3	500
Consols	1930	2	915,100
Conversion bonds	1946-7	3	2,045,500
Treasury bonds	1944-56	3-3/8-4-1/4	8,798,950
3d Liberty bonds	1928	4 1/2	35,633,050
Other Liberty bonds	1933-47	3 1/2-4 1/2	39,779,300
Treasury notes	1932	3 1/2	21,912,750
Certificates of indebt.	1928	3-3/4	27,475,800

Strong's here

FOR SPECIAL CIRCULATION
 PLEASE READ FIRST INITIAL AND RETURN TO LIBRARY'S OFFICE
 Gov. Young ✓ Mr. Hamlin ✓ Mr. James ✓ Mr. McIntosh ✓
 Mr. Platt ✓ Mr. Miller ✓ Mr. Cunningham ✓

FEDERAL RESERVE BANK

OF NEW YORK

333-61

CONFIDENTIAL

March 2, 1928.

R. A. Y.
 MAR 8 1928

Dear Governor Young:

Supplementing the letter which I have today written (you concerning the movement of gold during January and February, I want to confirm what I have already told you in person, that the Bank of France has instructed us to ship to it all of the \$150,000,000 of U. S. gold bars now held under earmark for its account. There will be twelve shipments of about \$12,000,000 each and one shipment of \$6,000,000, the first shipment taking place on March 7 and the last on May 19. We have also been advised confidentially by the Bank of England that it is the intention of the Bank of France to withdraw from it the gold now held under earmark by them for account of the Bank of France.

The \$7,500,000 of gold exported to France last week was, as you know, shipped by one of our member banks for account of the Bank of France, payment therefor having been taken out of the market. This particular shipment, however, was the last of three shipments aggregating \$25,000,000 which were arranged by the Bank of France a number of weeks ago. It was, we understand, quite independent of the present movement, concerning which I am

FEDERAL RESERVE BANK OF NEW YORK

2

Hon. R. A. Young

3/2/28

now writing you. While the Bank of France would have preferred no publicity whatever regarding the shipments of gold withdrawn from earmark, they have, at our request, authorized us, in reporting individual shipments, to indicate that they are being withdrawn from gold held under earmark for their account. We would not expect, however, in advance, or by any general statement, to refer to the number of shipments or the total amount involved, or indeed to indicate at any one time that future shipments are contemplated, and I know that you will regard this letter in the light of those facts.

Very truly yours,

George L. Harrison
George L. Harrison,
Deputy Governor.

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

GLH.MM

Noted
AT BOARD MEETING
MAR 9 1928

FEDERAL RESERVE BANK
OF NEW YORK

MAR 3 1928
333-61

March 2, 1928.

My dear Governor Young:

You may remember that on January 10 I wrote you a detailed letter concerning gold movements during the year 1927 and the first ten days of January 1928. While there is no need to supplement the table giving the total gold movement during the year 1927, nevertheless I want now to enclose two new tables reporting the gold movement into and out of New York for the months of January and February, respectively. From these tables you will notice that total exports and earmarks during the two months in question have amounted to \$79,500,000, whereas the total imports and releases from earmark have amounted to \$62,600,000, making a net loss of gold during the period of \$16,900,000. Included among the imports, however, is \$5,200,000 of Russian gold which has not been added to bank reserves.

These tables, of course, include gold whether in the form of bars or coin, and as you may be interested in the question of our supply of gold coin, which I have discussed orally with you in the past, I am enclosing for your further information, a supplementary table of receipts and payments of double eagles for the period from January 3, 1928 to March 2, 1928, together with a copy of a letter which

see letter 3/2/28

FEDERAL RESERVE BANK OF NEW YORK

2

Governor Young

3/2/28

I am today sending to Undersecretary Mills concerning the matter.

If there is any further information which you care to have, I hope you will please let me know.

Very truly yours,

George L. Harrison
George L. Harrison,
Deputy Governor.

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

Noted
AT BOARD MEETING
MAR 9 1928
(initials)

GOLD MOVEMENT

January 1 to 31 inc. 1928.

(In millions of dollars)

<u>Country</u>	<u>Imports From</u>	<u>Exports To</u>	<u>, Earmarks</u>	<u>Releases</u>
Argentina	-	19.8	-	-
Belgium	-	2.0	3	2
Brazil	-	11.8	-	-
Canada	35.8	-	-	-
France	-	7.5	-	-
Germany	-	-	0.5	-
Holland	-	4.0	-	-
India	-	1.0	-	-
Poland	-	-	1	-
Switzerland	-	-	-	8
Uruguay	-	3.0	-	-
All Other	0.7	1.6	-	-
Totals	\$36.5	\$50.7	\$4.5	\$10

GOLD MOVEMENT

February 1 to 29 inc. 1928

(In thousands of dollars)

<u>Country</u>	<u>Imports From</u>	<u>Exports To</u>	<u>Earmarks</u>	<u>Releases</u>
Argentina	-	12,000	-	-
Canada	7,400	-	-	-
France	-	7,500	-	-
Germany	-	-	500	-
Uruguay	-	3,000	-	-
Venezuela	-	1,300	-	-
Switzerland	-	-	-	3,500
Russia	5,201	-	-	-
	<u>\$12,601</u>	<u>\$23,800</u>	<u>\$ 500</u>	<u>\$3,500</u>

RECEIPTS AND PAYMENTS OF \$20 GOLD COIN FOR PERIOD
FROM JANUARY 3, 1928 to MARCH 2, 1928.

<u>Balances January 1, 1928.</u>	<u>\$27,400,000</u>
<u>Receipts</u>	
From Mint	\$38,000,000
" Canada	14,000,000
" Karmark	<u>11,500,000</u>
	<u>\$65,500,000</u>
<u>Payments</u>	
Shipped to Argentine	30,750,000
" " Uruguay	6,000,000
" " Holland	4,000,000
" " Brazil	11,800,000
Net counter payments	<u>150,000</u>
	52,700,000
<u>Receipts over payments</u>	<u>\$10,800,000</u>
<u>Balance March 2, 1928.</u>	<u>\$38,200,000</u>

FEDERAL RESERVE BANK
OF ST. LOUIS
MARCH 2, 1928

March 2, 1928.

Dear Mr. Mills:

On January 24 I forwarded to you a table containing a statement of the receipts and payments of double eagles by this bank between the period of September 1, 1927 and January 24, 1928. The statement also indicated that our balance on hand at that time was \$45,600,000, which included a total of \$24,000,000 received from Canada during the seasonal movement taking place at that time.

As you requested when I saw you in Washington earlier this week I am now enclosing another table of the receipts and payments of double eagles for the period from January 3, 1928 to March 2, 1928. You will notice from the statement that our balance on hand on January 1, 1928 was \$27,400,000, and that since that time we have received the following deposits (a) \$38,000,000 from the Philadelphia Mint, (which does not include \$12,000,000 still to come from the Mint on the current movement); (b) \$14,000,000 from Canada, (which was included in the total of \$24,000,000 from Canada reported in my earlier letter); and (c) \$11,500,000 released from earmark. Against these total receipts of \$63,500,000, we have made payments of \$48,700,000 to South America and \$4,000,000 to Holland. Our balance on hand today, after

2

Mr. Mills

3/2/28

receiving \$13,000,000 from the Philadelphia Mint this week is \$38,200,000.

While the enclosed table relative to payments and receipts of coin probably covers all that you had in mind when you made your inquiry nevertheless I am also enclosing two other tables representing the total gold movement into and out of New York for the months of January and February, respectively. It will be observed from these two tables that while the net loss of gold during the months of January and February, through exports and earmarks, amounted to only \$16,900,000, the gross loss of gold was \$79,500,000, and of this amount, \$52,700,000 was in coin.

As to future movements of coin we have recently been advised that \$7,000,000 will be withdrawn for shipment to Brazil and \$2,000,000 to Argentine on March 9, and of the \$7,000,000 going to Brazil we understand that \$2,000,000 will be in half eagles.

Very truly yours,

George L. Harrison,
Deputy Governor.

Hon. Ogden L. Mills,
Undersecretary of the Treasury,
Treasury Department,
Washington, D. C.

Enc.

FT

333.8-1

February 17, 1928

Mr. Hamlin

Open Market Operation

Mr. Goldenweiser

H 66a

Some time ago, you asked me what would have happened if there had been no open-market operations by the Federal reserve banks. I think in discussing this subject we might as well eliminate the entire period prior to 1922, when there was no open-market policy and when discounts were very much more important than open-market purchases. The following is for your own personal use. It is more informal than any statement that I should care to make to the Board.

In 1922 the reserve banks bought large amounts of securities, because they were alarmed by the decrease in their earnings. They soon learned that this resulted in a decrease in their discounts and that their earnings were not benefitted by the change. It was only in 1923 that the open-market policy with reference to credit conditions was formulated and came to be understood. I think that the course of events in 1923 would have been essentially the same if the securities in the Federal reserve banks' portfolio had not been permitted to run off. The liquidation of these securities did, however, result in increasing indebtedness of the member banks and in some tightening in the money market. Perhaps the boom which appeared to be under way early in 1923 would have lasted a little longer if it had not been for Federal reserve action. In 1924 large-scale purchases of securities contributed to the plethora of funds and put the member banks in the financial centers practically out of debt to the reserve banks. In that year the Federal reserve system was probably responsible for a certain part of the extreme monetary ease and the consequent growth in the investments and security loans of member banks.

See duplicate

- 2 -

I think that in 1925 and 1926 open-market operations merely had the effect of smoothing the machinery at the turning points without playing a large part in credit policy. In the early part of 1927 open-market policy resulted in encouraging easy money and thus facilitating gold withdrawals, and later in the year up to the middle of November in offsetting the effects of these exports. After that time open-market purchases were in small volume and gold exports had their full effect on the money market.

On the basis of these facts, it is my general impression that: (1) The effects of the open-market policy on the general credit situation are not as great as is generally believed. (2) Open-market operations, except for some errors in judgment, particularly in regard to the timing of operations, have been conducted with wisdom and have supported changes in discount rates. (3) It is often overlooked that one important reason for open-market operations in a volume larger than what may come to be considered normal has been the unusually large gold movements of recent years. With the re-establishment of the gold standard and the diminution of the volume of international gold movements, it may be expected that open-market operations will be on a smaller scale. (4) It would at times be very difficult to operate the Federal reserve banks without recourse to open-market operations and to limit the banks' authority in this respect would be unfortunate. No central bank in the world operates without this power.

333-6-1

February 14, 1938.

Dear Mr. Case:

I have received and brought to the attention of the Board, your letter of February 10th, advising that it is proposed to confer with the Board before taking any action to change the amount of holdings in the Open Market Investment Account.

Very truly yours,

(Signed) R. A. Young

R. A. Young,
Governor.

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

Prepared by

Noted

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
FEB 11 1928
TALL GOVERNOR
3337

February 10, 1928.

CONFIDENTIAL

Dear Governor Young:

In re: Open Market Investment Account

Referring to my letter of February 7, 1928, in which I reported on the sales from the Open Market Investment Account, and to my conversation with you by telephone this morning, I am glad to learn that the Federal Reserve Board is in sympathy with the idea expressed in the last paragraph of my letter.

As to our future course, the condition of the money market since I wrote my letter and the conversations which we have had with our directors and with the members of the committee, confirms me in the belief that we would do well to continue the account at about the present level. If there should be any need for a change from this policy we would propose to confer with you before taking action.

8

Very truly yours,

J. H. CASE
Acting Chairman,
Open Market Investment Committee

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

Noted

*see letter 3/14/28
see letter 3/2/28
see ans 2/4/28*

FOR SPECIAL CIRCULATION

PLEASE READ PRO... TL INITIAL AND RETURN TO SECRETARY'S OFFICE
Gov. Young ✓ Mr. Hamlin ✓ Mr. James Mr. McIntosh
Mr. Platt ✓ Mr. Miller ✓ Mr. Cunningham ✓
FEDERAL RESERVE BANK

333-6-1

CONFIDENTIAL

OF NEW YORK

R. A. Y.
FEB 11 1928

February 7, 1928.

Dear Governor Young:

Since my last letter to you, under date of January 27, \$25,000,000 of additional sales of Government securities have been made from the System Special Account to the market, reducing the holdings in that account to \$275,000,000 as at the close of business tonight, and representing a reduction of approximately \$150,000,000 since the first of the year. These sales, together with advances in discount rates of this bank and four other Federal reserve banks during the past week, have resulted in slightly firmer money.

Call loans now appear to be fairly firm at 4½%; time money is firm at 4¾% and ninety-day bankers acceptances are up 1/8 further, to 3 5/8%. Short-term Government securities have moved in sympathy with the foregoing rates, so that practically any issue of the short-dated Government securities may now be purchased at a price to yield 3½% or more. The stock market continues to be a bit irregular, while bond prices are fairly steady.

In view of the foregoing, it seems to us here that it may be wise for the present to continue the Open Market Investment Account at about the present level and to watch the effect of the sales already made and the changes in the rediscount rate before taking any further action.

Very truly yours,

J. H. CASE,
Acting Chairman, Open Market
Investment Committee.

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

Enclosure.

See Minutes

Re Board 1/10/28

see letter 7/10/28

GOVERNMENT SECURITIES HOLDINGS

<u>Close of</u>	<u>System Account</u>	<u>Net Reduction Weekly Basis</u>	<u>Advances to Dealers (N.Y. Bank Only)</u>	<u>Net Reduction Weekly Basis</u>
Jan. 4	\$423,158,500		\$ 76,061,400	
5	423,158,500		38,600,000	
6	423,158,500		27,000,000	
7	422,030,000		18,000,000	
8	422,030,000		18,000,000	
9	419,530,000		20,000,000	
10	394,530,000		19,500,000	
11	399,530,000	23,628,500	18,500,000	57,531,400
12	376,030,000		3,500,000	
13	371,030,000		3,500,000	
14	371,030,000		3,500,000	
15	371,030,000		3,500,000	
16	370,330,000		3,500,000	
17	368,080,000		2,000,000	
18	368,080,000	31,450,000	-0-	18,500,000
19	365,580,000		-0-	
20	343,019,000		-0-	
21	343,019,000		-0-	
22	343,019,000		-0-	
23	341,019,000		-0-	
24	320,519,000		-0-	
25	309,019,000	59,061,000	-0-	-0-
26	303,839,000		4,000,000	
27	302,756,500		4,700,000	
28	301,576,500		4,700,000	
29	301,576,500		4,700,000	
30	300,394,000		3,600,000	
31	300,394,000		2,000,000	
Feb. 1	292,394,000	16,625,000	9,500,000	9,500,000 + (Increase)
Feb. 2	Additional Sales	5,000,000	Feb. 2 Repayment	5,000,000
3	" "	6,700,000	3 "	4,500,000
7	" "	5,000,000		
	Total Sales	<u>\$147,464,500</u>	Total Repayments	<u>\$76,061,400</u>

Balance February 7 \$275,694,000

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

Date February 1, 1928

To _____

Subject: _____ 333-61

From _____

2-8495
G P O

R. A. Y.
FEB 3 1928

Mr. Case reported that New York had sold \$10,000,000 out of the Open Market Investment Account today and \$5,000,000 additional for delivery tomorrow. This will bring the total holdings of the System's Open Market Government Account to \$285,000,000.



FEDERAL RESERVE BANK
OF NEW YORK

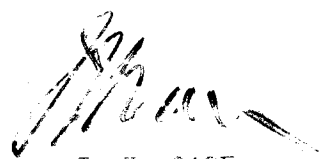
335-61

January 27, 1928.

Dear Governor Young:

I acknowledge with thanks the receipt of your letter of January 26, notifying me as to the views of the Federal Reserve Board with respect to further sales of Government securities from the System Account.

Very truly yours,



J. H. CASE,
Acting Chairman,
Open Market Investment Committee.

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



FOR OFFICIAL USE ONLY

Mr. Young
Mr. Platt

FEDERAL RESERVE BANK
OF NEW YORK

333-8-1
R. A. Y., 1928.
FEB 2 1928

CONFIDENTIAL

Dear Governor Young:

You will recall that in my last letter to you, under date of January 20, 1928, I reported a reduction in the Open Market Investment Account, by direct sales from portfolio, of \$80,000,000. Since that time additional sales, aggregating \$41,000,000, have been made, which will effect a total reduction in the account, of \$121,099,500, leaving a balance of about \$300,000,000.

Partly as a result of these sales, the money market is noticeably firmer. Bill rates are up by 1/8, time money is now 4 3/8, which represents an increase of about 1/4 since early this year, and commercial paper is a firm 4 per cent. as compared with 3 3/4 - 4. This morning the member banks in New York City owe us 130 million dollars, and I see by yesterday's statement that bills discounted for the System as a whole are 20 million larger than they were a year ago. Just in the past few days there appears to have been some evidence of a transfer of funds from New York to the interior, and a reduction of borrowing at some of the western Reserve banks, and a corresponding increase in New York.

These various changes have taken place although we are now at what is usually the very bottom of the seasonal dip in money rates. The full effect of our action will be apparent only as the seasonal commercial demand begins about the middle of February.

In view of these conditions, our present view would be that we might defer for the moment further sales of securities and study the situation as it develops.

Very truly yours,

J. H. Case
J. H. CASE,
Acting Chairman,

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

?

see letter 2/7/28

GOVERNMENT SECURITY HOLDINGS

<u>Close of</u>	<u>System Account</u>	<u>Net Reduction Weekly Basis</u>	<u>Advances to Dealers (N.Y. Bank Only)</u>	<u>Net Reduction Weekly Basis</u>
Jan. 4	\$423,158,500		\$76,061,400	
5	423,158,500		38,600,000	
6	423,158,500		27,000,000	
7	422,030,000		18,000,000	
8	422,030,000		18,000,000	
9	419,530,000		20,000,000	
10	394,530,000		19,500,000	
11	399,530,000	23,628,500	18,500,000	57,561,400
12	376,030,000		3,500,000	
13	371,030,000		3,500,000	
14	371,030,000		3,500,000	
15	371,030,000		3,500,000	
16	370,330,000		3,500,000	
17	368,080,000		2,000,000	
18	368,080,000	31,450,000	-0-	18,500,000
19	365,580,000		-0-	
20	343,019,000		-0-	
21	343,019,000		-0-	
22	343,019,000		-0-	
23	341,019,000		-0-	
24	320,519,000		-0-	
25	309,019,000	59,061,000	-0-	
26	303,839,000		4,000,000	
27	303,239,000		-0-	
28	302,059,000	<u>6,960,000</u>	-0-	<u>4,000,000</u>
Total reduction by sales				
Jan. 4 to Jan. 28 inclusive.....		\$121,099,500		\$ 80,061,400

333-61

January 26, 1928.

Dear Mr. Case:

Following our telephone conversation last Monday, January 23rd, I advised the Board of the desire of the Open Market Investment Committee to sell an additional \$50,000,000 of securities from the System account, and of the statement I made to you that, as to the attitude of the Board, I felt the members would be quite willing to give the Committee authority to sell up to \$100,000,000 of securities if it desired to do so.

None of the members of the Board expressed any objection to additional sales of securities up to the \$50,000,000 limit which you suggested.

Very truly yours,

R. A. Young,
Governor.

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

see memo 1/27/28

FOR SPECIAL CIRCULATION 1/21

PLEASE RETURN PROMPTLY, INITIAL AND RETURN TO SECRETARIES OFFICE
Gov. Young *WJY* Mr. Hamlin *WH* Mr. Jackson *WJ*
Mr. Platts *EP* Mr. Miller *W* Mr. Cummings *EHG*

FEDERAL RESERVE BANK
OF NEW YORK

January 20, 1928.

~~CONFIDENTIAL~~

*Please
circulate
copy*

Dear Governor Young:

IN RE: Open Market Investment Account

As agreed upon at the meeting of the Open Market Investment Committee on January 12, 1928, the idea of reducing the System's holdings of Government securities has, as you know, been put into practice. Beginning with January 4, 1928:

The total amount held in the System Special Account was.....	\$423,158.500
Amount held at New York under sales contract, was.....	<u>76,061,400</u> X
Total.....	<u><u>\$499,219,900</u></u>

From the memorandum enclosed you will observe that during the week ending January 11, 1928:

Actual sales made, aggregated.....	\$ 23,628,500
Liquidation in advances to dealers, totaled.....	<u>57,561,400</u>

which accounted for the reduction of approximately.....\$ 81,000,000 as shown by the published statement of the System as of that date.

For the week ending January 18, 1928:

Actual sales amounted to.....	\$ 31,450,000
Plus a complete liquidation of the remaining amount of our advances to dealers.....	<u>18,500,000</u>

which, of course, accounts for the reduction of about.....\$ 50,000,000 appearing in this week's published statement.

We have made further direct sales to the market yesterday and today, amounting to \$25,000,000, which will appear in the weekly published figures as of January 25, 1928.

see letter 1/27/28

FEDERAL RESERVE BANK OF NEW YORK.

2.

Governor Young.

1/20/28.

To sum up:

The total reduction by direct sales from portfolio, from January 4 to this date, aggregates.....\$ 80,000,000

Plus a liquidation (in the form of a reduction in advances to dealers) of..... 76,000,000

Making a total reduction of. \$156,000,000

As there is no separation of these two classes of holdings in the System's published figures, the System is receiving credit for making somewhat larger sales than have actually occurred.

The Treasury's current Third Liberty Loan exchange program is to be closed on Monday, January 23, and this fact should enable us promptly to make further additional sales to the market. Money has become quite easy in this market, the call rate being down to 3½%; and our loans to New York City banks have shown a marked decrease, having gone down to something less than \$50,000,000 as against \$110,000,000 a week ago. Bank transfers this way and the return flow of currency have run into large figures.

Very truly yours,

J. H. CASE,
Acting Chairman,
Open Market Investment Committee.

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

Enclosure.

Noted
CASE
JAN 23 1928

GOVERNMENT SECURITY HOLDINGS

<u>Close of</u>	<u>System Account</u>	<u>Net Reduction Weekly Basis</u>	<u>Advances to Dealers (N.Y. Bank only)</u>	<u>Net Reduction Weekly Basis</u>
Jan. 4	\$423,158,500		\$76,061,400	
5	423,158,500		38,600,000	
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16	370,330,000		3,500,000	
17	368,080,000		2,000,000	
18	368,080,000	31,450,000	-0-	18,500,000
19	365,580,000		-0-	
20	343,019,000	<u>25,000,000</u>	-0-	<u> </u>
Total reductions by sales Jan. 4 to Jan. 20.....		\$80,078,500	Total repayments	\$76,061,400

It will be noted that total direct sales to date aggregate \$80,000,000 while the published statement of the System shows reductions of \$81,000,000 for the week ending January 11 and of approximately \$50,000,000 for the week ending January 18, which totals, of course, include the liquidation of \$76,000,000 of advances to dealers.

333-6-1

FEDERAL RESERVE BANK
OF NEW YORK

R. A. Y.
JAN 16 1928

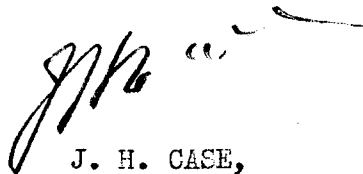
January 13, 1928.

Dear Governor Young:

I have your letter of yesterday and note that following the meeting of the Federal Reserve Board with the Open Market Investment Committee yesterday morning, the Board unanimously adopted the following motion:

"The Federal Reserve Board authorizes the Open Market Investment Committee during the next two months to make sales of Government securities from time to time with accompanying authority temporarily to purchase such securities should developments not now in sight require such action."

Very truly yours,



J. H. CASE,
Acting Chairman,
Open Market Investment
Committee.

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

333-11

January 12, 1928.

Dear Mr. Case:

At the meeting of the Board this morning, after the members of the Open Market Committee had retired, the Board unanimously adopted the following motion:

"The Federal Reserve Board authorizes the Open Market Investment Committee during the next two months to make sales of Government securities from time to time with accompanying authority temporarily to purchase such securities should developments not now in sight require such action."



Very truly yours,

R. A. Young,
Governor.

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

see ans 1/13/28

Please circulate
Ray

R. A. Y.
Jan. 12 1928
JAN 12 1928
333-891

FEDERAL RESERVE BANK
OF NEW YORK

January 11, 1928.

CONFIDENTIAL

Dear Governor Young:

In connection with the letter which I wrote you yesterday about gold movements, you may be interested to know that entirely apart from the special earmark transactions for account of the Bank of France amounting, during the year 1927, to \$150,000,000, two special shipments of gold have been made to the Bank of France by one of our New York City member banks, one on December 28 amounting to \$10,000,000 and another on January 7 amounting to \$7,500,000. At the time the first shipment was made we received a cable from the Bank of France saying that they were ordering the gold exported with the intention of favorably affecting French public opinion. As you may have heard, there was quite a bit of publicity as to this shipment, especially upon its arrival in Paris where we understand there were active public demonstrations.

Last week, prior to the dispatch of the second consignment, our member bank received a cable from the Bank of France urging secrecy and asking that the shipment be kept off the ship's public manifest. Yesterday, in reply to an inquiry from us, we received a cable from the Bank of France indicating their desire, as far as possible, to avoid publicity regarding the current shipment. They explained that such unreasonable reports were made in the press at the time of the arrival of the first shipment that they preferred not to have the destination of this one disclosed to the press.

This is merely to keep you posted.

Very truly yours,

George L. Harrison
GEORGE L. HARRISON,
Deputy Governor.

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

FOR SPECIAL CIRCULATION 1/13

PLEASE READ PROMPTLY, INITIAL AND RETURN TO SECRETARY'S OFFICE

Gov. Young *MM*

Mr. Platt *EP*

Mr. Miller *MM*

Mr. James

Mr. Miller *MM*

Mr. Cummings *MM*

Mr. McIntosh

FEDERAL RESERVE BANK

OF NEW YORK

JAN 12 1928
A. Y.

RECEIVED
JAN 12 1928
absent
333-8-1

Please circulate to Ray

January 10, 1928.

Dear Governor Young:

Carded

While you no doubt have all the figures available in your records at the Board, nevertheless I thought that it might be convenient briefly to review the gold movements during the year 1927 and for the first ten days of this month. With that in mind, I am enclosing a table showing by countries the total imports and exports as well as earmarks and releases for the year 1927. From this table you will observe that aggregate shipments to the United States, most of which were in the early months of the year, were approximately \$207,600,000, whereas the total exports from the United States were \$199,600,000, of which the greater part were in the latter part of the year.

If, therefore, we consider only the actual movements of gold, the net gain to our gold stock was \$8,000,000, but as an offset, it will be observed that net earmarks during the year amounted to \$160,600,000, making a net loss through exports and earmarks amounting to \$152,600,000 for the whole year. These figures are the best that we have available and must be subject to some slight adjustment when the final figures for the whole country for the month of December are received.

Since January 1 the total losses of gold through payments for export or earmark have amounted to \$33,150,000.

Noted

12 1928

see letter 1/11/28 see letter 3/2/28

FEDERAL RESERVE BANK OF NEW

ARK.

2

Governor Young

Jan. 10, 1928.

Offsetting these losses, however, total gains through imports or releases from earmark have amounted to \$22,250,000, making a net loss of \$10,900,000 for the first ten days of the month. In order that you might clearly visualize the movement for this ten day period, I am enclosing a separate table showing by countries actual shipments as well as earmark transactions.

It is a little difficult accurately to forecast gold movements for the next few weeks. We have, however, been advised that \$5,000,000 will be shipped to Brazil on January 14 and \$3,000,000 to the Argentine on the same date. We have also been advised that we will receive \$4,500,000 from Canada tomorrow. Whether or not we will lose more to South America is problematical, but inasmuch as this is the period of our heaviest payments to the Argentine it is not unlikely that we may lose a few million to that country in spite of the fact that total shipments to the Argentine since January 1, 1927 have aggregated \$68,000,000, apart from the shipment of \$3,000,000 that is to be made on next Saturday.

The various exchanges throughout the world were, as you know, very strong during the latter part of 1927, and while it is true that some of our shipments of gold were special transactions related to central bank operations or generally directed towards currency stabilization, nevertheless much of the gold that we lost was the result of the strength of the foreign exchanges as contrasted with the dollar. Since January 1 there has been some easing of most of the exchanges. This was particularly true of sterling, marks and guilders, but even with this recent ease most of the foreign exchanges are still well above par, though not as

FEDERAL RESERVE BANK OF NEW YORK


3

Governor Young

Jan. 10, 1928

near the export point as was the case during December. In this connection, I am enclosing for your information a table showing the principal foreign exchanges, giving their mint parity, export and import points and the latest quotations. You may remember that when I was discussing the exchange situation with you in Washington early in December, I told you that I would send you such a table as this, but at that time there were so many concessions being made in both insurance and freight rates that it was difficult actually to estimate the gold points in many cases. I think the enclosed table is, for practical purposes, fairly accurate. This whole question is one which is very difficult to discuss in the scope of a letter such as this must be, but it occurred to me that you might care to have this resume as a basis for your consideration.

Very truly yours,



GEORGE L. HARRISON,
Deputy Governor.

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

GLH.MM
Encs.

GOLD MOVEMENT

1 9 2 7

(In millions of \$)

COUNTRY	IMPORTS FROM	EXPORTS TO	EAR- MARKS	RELEASES
Argentina	-	\$61.5	-	-
Australia	\$22.	-	-	-
Belgium	-	2.	\$9.7	\$2.
Brazil	-	34.	-	-
Br. Malaya	-	3.	-	-
Canada	64.	30.	-	-
Chile	7.	-	-	-
China*	2.	5.5	-	-
Czechoslovakia	-	-	2.	-
Ecuador	2.	-	-	-
France	21.	10.	150.	-
Germany	-	14.	2.	18.
Great Britain	39.	8.5	-	-
India	-	3.	-	-
Japan	20.	-	-	-
Netherlands	15.	8.	-	-
Poland	-	5.	25.	7.6
Sweden	-	1.	-	-
Switzerland	-	-	19.5	20.
Uruguay	-	2.	-	-
Venezuela	0.5	1.5	-	-
All Other	15.1	10.6	-	-
TOTAL*	\$207.6	\$199.6	\$208.2	\$47.6

*Preliminary

GOLD MOVEMENT

January 1 to 10, 1928

(In millions of \$)

COUNTRY	IMPORTS FROM	EXPORTS TO	EARMARKS	RELEASES
· Argentina	-	\$6.5	-	-
· Belgium	-	2.	\$2.	\$2.
· Brazil	-	6.	-	-
· Canada	\$12.	-	-	-
· France	-	7.5	-	-
· Holland	-	4.	-	-
· India	-	1.	-	-
Poland	-	-	1.	-
Switzerland	-	-	-	8.
· Uruguay	-	3.	-	-
Totals	\$12.	\$30.	\$3.	\$10.

COMPARISON OF FOREIGN EXCHANGE RATES
AND GOLD POINTS

<u>COUNTRY</u>	<u>EXPORT POINT</u>	<u>MINT PAR</u>	<u>IMPORT POINT</u>	<u>RATE</u> <u>JANUARY 10, 1928</u>
Austria	.14123	.1407	.13995	.141067
Belgium	.13967	.1390	.13855	.139495
Canada	1.001604	1.0000	.998396	.998111
Denmark	.26981	.2680	.26664	.267775
England	4.88810	4.8665	4.85242	4.873556
Finland	.02547	.0252	.02501	.025186
France	.19361	.1930	.19213	.039297
Germany	.23950	.2382	.23715	.238039
Holland	.40455	.4020	.40088	.402988
Hungary	.17562	.1749	.17390	.174755
Italy	.05286	.052631	.05240	.052874
Poland	.112767	.11218	.111475	.112475
Sweden	.26991	.2680	.26659	.269043
Switzerland	.19453	.1930	.19218	.192693
Australia	4.91603	4.8665	4.83775	4.867465
Japan	.5019	.4985	.4950	.470387
Argentine	.9712	.9648	.9585	.970413
Uruguay	1.0410	1.0342	1.0273	1.029420
Chile	.12274	.1217	.12065	.122091

FEDERAL RESERVE BANK
OF NEW YORK

R. A. Y.
JAN 12 1928

333-b-1

January 10, 1928.


Dear Governor Young:

I have your letter of yesterday, advising me that the Federal Reserve Board has formally approved the sale of ~~(not)~~ to exceed \$50,000,000 of Government securities from the System Special Account, if and when deemed advisable by the Open Market Investment Committee. ✓

As you know, the report of the Open Market Investment Committee presented to the Federal Reserve Board at its meeting with the Committee on November 2, 1927, recommended a certain definite policy which was approved by the Federal Reserve Board. One of the steps which the Committee at that time stated it might be necessary to take, in order to carry out the policy approved by the Federal Reserve Board, was the sale of Government securities after the turn of the year. That being so, we had of course assumed that the Committee had full authority to make the sales in question; and in my conversation with you on Saturday I intended merely to report to you, as a matter of information, what the Committee had in fact agreed to do without any thought that the formal approval of the Federal Reserve Board was, in the circumstances, necessary. I am writing this merely to explain our understanding in the matter, and also to give you the reason why we in fact made sales aggregating \$25,000,000, on Monday, without expecting or thinking the Board's approval would be necessary. ✓

Very truly yours,

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


J. H. CASE,
Deputy Governor.

333-f-1

January 9, 1928.

Dear Mr. Case:

At the meeting of the Board this morning, I reported our telephone conversation of Saturday with respect to the feeling at your bank, which you advised was concurred in by the members of the Open Market Investment Committee, that it might be advisable in connection with the immediate situation in the money market to sell from \$40,000,000 to \$50,000,000 of Government securities from the special account. For your information, and as a matter of confirmation, the Board formally voted to approve the sale of not to exceed \$50,000,000 of securities from the account, if and when deemed advisable by the Committee.

Very truly yours,

(Signed) R. A. Young

R. A. Young,
Governor.

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

Prepared by


see ans 1/10/28

FOR SPECIAL CIRCULATION
PLEASE READ PROMPTLY INITIAL AND RETURN TO SECRETARY'S OFFICE
Gov. Young ✓
Mr. Hamlin ✓
Mr. Platt ✓
Mr. Miller ✓
Mr. James (absent) ✓
Mr. Cunningham ✓
Mr. McIntosh ✓
FEDERAL RESERVE BANK
OF NEW YORK

man please circulate

Platt

333-6-1

CONFIDENTIAL

January 5, 1928.

Dear Governor Young:

In re: Open Market Investment Account

Since my letter to Vice Governor Platt, which was written on December 21, 1927, there have been some changes in the maturities of the short-term Governments held in the Account, although there have been (no) changes in the total par value held, which remains at \$423,158,500. Such changes in the holdings, which are contained in the Secretary's detailed weekly reports, have been the result, for the most part, of purchases and sales to accommodate the fiscal agent of the British Government and a foreign correspondent. The balance of the \$20,000,000 of short-dated Governments taken over temporarily in our own investment account, amounting to about \$16,000,000 was disposed of yesterday.

No further purchases have been made beyond the \$45,000,000 previously reported to offset gold earmarked and shipped, the amount of which during the last two months has reached a total of \$195,000,000. Our loans to member banks, as was to be expected, showed a large increase at the end of the year; also we have been carrying temporarily for dealers, under sales contract agreements, good sized amounts of Government securities and bankers bills.

150 more short

Call money, which has been firm since the turn of the year, yesterday dropped from $5\frac{1}{2}\%$ to $4\frac{1}{2}\%$, and today went to 4%. The indications are that with the return flow of currency we shall have a liquidation in loans and securities carried such ^{as} /is usually experienced at this season of the year. It would not be surprising, therefore, if conditions in the near future would warrant con-

FEDERAL RESERVE BANK OF NEW YORK...

Governor Young

1/5/28

sideration of the idea of making some sales of securities from the Open Market Account.

Very truly yours,



J. H. CASE
Acting Chairman, Open Market
Investment Committee

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