END SHEET

KIND OF MATERIAL OR NUMBER 333.-b-2

NAME OR SUBJECT Open Market Investment Committee Meetings
Open Market Operations

DATES (Inclusive) 1927 - Jun 1928

PART NUMBER Part 4

333-6-2

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 1, 1928.

To All Members of the Board

Subject:

From Mr. McClelland

2—8495

At the meeting this morning, there was ordered circulated, the attached letter, dated May 29th, from Mr. Matteson, transmitting a copy of the minutes of the meeting of the Open Market Investment Committee, held in Washington on May 25th.

5-25-28 filed 333.-6-2 Final Minutes

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

Please return to Secretary's office.

333.-6

June 1, 1928.

Dear Mr. Matteson:

5/25/28 filed 333.-2 - final minutes

Receipt is acknowledged of your letter of May 29th, addressed to Governor Young, transmitting a copy of the minutes of the meeting of the Open Market Investment Committee, held in Washington on May 25th. These minutes are being brought to the attention of all members of the Board.

Very truly yours,

(Signed) E. M. McClelland.

E. M. McClelland,
Assistant Secretary.

Mr. W. B. Matteson, Secretary,
Open Market Investment Committee,
c/o Federal Reserve Bank,
New York, N. Y.

333.-6

FEDERAL RESERVE BANK

OF NEW YORK

MAY 31 1928

P E R S O N A L   May 29, 1928

R. A. Y.
MAY 31 1928

Dear Governor Young:

I am enclosing herewith, for your files, a copy of the minutes of th meeting of the Open Market Investment Committee held in Washington on May 25, together with a copy of the secretary's report to the meeting, and a copy of the preliminary memorandum considered by the committee, dated May 24.

5/25/28 filed 333.-6-2 final minutes

Very truly yours,

W. B. Matteson
Secretary, Open Market
Investment Committee

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

Encls. (3)

333.-6-2

FEDERAL RESERVE BANK
OF NEW YORK

CONFIDENTIAL

May 29, 1928

Dear Governor Young:

5/25/28 filed 333.-6-2 Final minutes

I am enclosing a copy of the minutes of the meeting of the Open Market Investment Committee held in Washington on May 25.

Very truly yours,

W. B. Matteson
W. B. Matteson
Secretary, Open Market
Investment Committee

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

Encls. (1)

Ordered Circulated
AT BOARD MEETING
JUN 1 1928

see ans 6/1/28

May 25, 1928

Dear Mr. Case:

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.

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 333.3

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.

6

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.

333.-6-2

5-25-28

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.

5/25/28

Final amended report
approved by Board

A

333.-6-2

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.

5-25-28

amendment to p.m. report adopted by Committee

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.

Revised report submitted by Committee at P.M. session

333-6-2

The Committee has considered the memorandum submitted by the Chairman reviewing the credit situation. 5-25-28

5-25-28

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

4

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

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

5/25/28

Report submitted by Committee at a.m. meeting and revised

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

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

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

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

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

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

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

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

Resolution adopted by
Committee Gov. Harding
voting No -

B.H.C.
B.H.C.

333.-6-2

REPORT OF THE SECRETARY OF THE OPEN MARKET INVESTMENT COMMITTEE
TO THE MEETING OF THE COMMITTEE ON MAY 25, 1928

Holdings of Government securities in the System Account on April 25, 1928, as reported at the last meeting of the Committee on April 30, 1928, amounted to - $170,078,300

In accordance with the policy agreed to at the said meeting, net sales in the Account have resulted in a further reduction of 70,078,300

leaving total holdings in the Account on May 23 - - - - - - - - - - $100,000,000

Following is a statement of the transactions in the Account since April 25:

Holdings in Account on April 25 - - - - - - - - - - - -		$170,078,300
Changes week ending May 2:		
Sales to Foreign Account	$ 7,140,000	
" " Member Bank	250,000	
" " Market	17,000,000	
	$24,390,000	
Purchase from Foreign Account	11,470,000	12,920,000
		$157,158,300
Changes week ending May 9:		
Sales to Foreign Account	2,450,000	
" " Market	14,200,000	16,650,000
		$140,508,300
Changes week ending May 16:		
Sales to Market		15,550,000
		$124,958,300
Changes week ending May 23:		
Sales to J. P. Morgan & Company as Fiscal Agent	15,000,000	
Sales to Market	9,958,300	24,958,300
Total holdings in Account close of May 23 -		$100,000,000

On May 11, 1928 the Federal Reserve Bank of Chicago requested that, until further notice, we reduce their share of System purchases of bills one half. Accordingly their allotment percentage was reduced from 14% to 7% and apportioned to other participating banks.

On April 28 the Federal Reserve Bank of Chicago advised that they did not wish to participate in the distribution by the Federal Reserve Bank of Boston of over purchases of bills made by the latter.

Under date of May 17 the Federal Reserve Bank of Philadelphia by resolution of their Board of Directors requested us, until further notice, to omit them from participation in "overages" in the purchase of acceptances by other Federal reserve banks.

Attached are statements showing:

Exhibit A - Outright holdings of Government securities by individual Federal reserve banks and their participation in the System Special Investment Account, Government securities; also classification of issues held in the System Account by maturities as of close of business May 23, 1928.

Exhibit B - Statement showing earning asset holdings of all Federal reserve banks May 16, 1928 as compared with previous week and May 18, 1927; also weekly average of earning assets from December 28, 1927 to May 16, 1928 as compared with corresponding period 1927 and entire year 1927.

Exhibit C - Statement showing actual earnings of all Federal reserve banks for the first four months in 1928.

Exhibit D - Bills purchased outright by System by weeks from December 29, 1927 to May 9, 1928.

EXHIBIT "A"

STATEMENT SHOWING HOLDINGS OF GOVERNMENT SECURITIES BY FEDERAL RESERVE BANKS

	Outright Holdings of Government Securities by Federal Reserve Banks as at the Close of Business May 16, 1928	Participation by Fed. Res. Banks in System Spec. Inv. Acct. Gov't Securities as at the Close of Business May 23	Totals
Boston	$ 707,000	$ 7,721,000	$ 8,428,000
New York	6,252,000 *	26,550,000	32,802,000
Philadelphia	15,188,000	7,203,000	22,391,000
Cleveland	26,309,000	8,334,500	34,643,500
Richmond	1,153,000	2,671,000	3,824,000
Atlanta	3,138,000	2,348,000	5,486,000
Chicago	19,928,000	15,412,000	35,340,000
St. Louis	16,625,000	5,091,500	21,716,500
Minneapolis	7,585,000	3,864,000	11,449,000
Kansas City	9,733,000	6,784,500	16,517,500
Dallas	9,994,000	5,424,500	15,418,500
San Francisco	9,680,000	8,596,000	18,276,000
Totals	$126,292,000	$100,000,000	$226,292,000

* Of this amount $4,869,000 was held temporarily and resold after close of statement week ending May 16, 1928.

CLASSIFICATION OF ISSUES OF GOVERNMENT SECURITIES HELD IN THE SYSTEM SPECIAL INVESTMENT ACCOUNT

3 1/8% C/I due	June 15, 1928	$ 1,185,000
4 1/4% L/L "	Sept. 15, 1928 (Thirds)	1,356,700
3 1/4% C/I "	Dec. 15, 1928 (old)	47,189,000
3 1/4% " " "	Dec. 15, 1928 (new)	22,218,500
3 3/8% " " "	Mar. 15, 1929	5,450,000
3 1/2% T/N "	Mar. 15, 1932	10,160,000
3 1/2% " " "	Sept. 15, 1932	5,000,000
3 1/2% " " "	Dec. 15, 1932	7,440,800
	Total	$100,000,000

EXHIBIT "B"

STATEMENT SHOWING EARNING ASSET HOLDINGS OF ALL FEDERAL RESERVE BANKS MAY 16, 1928 COMPARED WITH PREVIOUS WEEK AND MAY 18, 1927; ALSO WEEKLY AVERAGE OF EARNING ASSETS FROM DECEMBER 28, 1927 TO MAY 16, 1928 AS COMPARED WITH CORRESPONDING PERIOD 1927 AND ENTIRE YEAR 1927

(000 Omitted)

	Boston	New York	Phila.	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minn.	Kan. City	Dallas	San Fran.	Totals
Bills Discounted - May 9	$ 54,589	$290,126	$47,215	$67,575	$39,025	$48,785	$105,670	$31,134	$10,346	$19,643	$ 6,832	$56,201	$ 777,141
" " " 16	57,562	296,829	55,197	59,439	42,251	46,236	112,779	35,322	9,001	22,006	7,144	63,646	807,412
Net Change	2,973+	6,703+	7,982+	8,136-	3,226+	2,549-	7,109+	4,188+	1,345-	2,363+	312+	7,445+	30,271+
Bills Purchased - May 9	38,375	84,050	38,249	35,589	16,941	22,184	50,159	2,769	19,925	15,050	16,144	25,669	365,104
" " " 16	40,023	69,884	38,984	34,178	16,754	22,519	47,682	1,472	20,502	14,489	14,855	25,950	347,292
Net Change	1,648+	14,166-	735+	1,411-	187-	335+	2,477-	1,297-	577+	561-	1,289-	281+	17,812-
Government Securities - May 9	11,555	49,501	25,309	38,434	4,905	6,463	43,483	23,779	13,013	21,016	18,176	21,758	277,392
" " " 16	10,355	46,900	24,189	36,724	4,490	6,071	39,237	22,988	12,413	20,461	18,071	20,421	262,320
Net Change	1,200-	2,601-	1,120-	1,710-	415-	392-	4,246-	791-	600-	555-	105-	1,337-	15,072-
Total Earning Assets - May 9	104,519	423,677	110,773	141,598	60,871	77,432	199,312	57,682	44,274	55,709	41,152	103,628	1,420,627
" " " " 16	107,940	413,613	118,370	130,341	63,495	74,826	199,698	59,782	42,906	56,956	40,070	110,017	1,418,014
Net Change	3,421+	10,064-	7,597+	11,257-	2,624+	2,606-	386+	2,100+	1,368-	1,247+	1,082-	6,389+	2,613-
Comparison of Weekly Average of Earning Assets													
Dec. 28, 1927 to May 16, 1928	108,250	334,365	114,919	133,478	59,351	54,145	180,512	64,245	39,320	57,543	45,731	111,518	1,303,377
Same period 1927	72,051	247,912	78,371	108,797	39,770	47,237	154,514	53,867	31,794	52,288	39,705	107,168	1,033,474
Entire year 1927	79,546	282,822	88,085	111,895	55,679	49,115	155,812	59,695	35,537	55,562	46,416	100,415	1,120,579
Net Change from same period 1927	36,199+	86,453+	36,548+	24,681+	19,581+	6,908+	25,998+	10,378+	7,526+	5,255+	6,026+	4,350+	269,903+
" " " entire year 1927	28,704+	51,543+	26,834+	21,583+	3,672+	5,030+	24,700+	4,550+	3,783+	1,981+	685-	11,103+	182,798+
Comparison of Earning Assets													
May 16, 1928	107,940	413,613	118,370	130,341	63,495	74,826	199,698	59,782	42,906	56,956	40,070	110,017	1,418,014
" 18, 1927	69,025	219,158	82,027	103,562	40,204	49,798	114,470	60,311	32,385	52,084	40,396	91,159	954,579
Net Change	38,915+	194,455+	36,343+	26,779+	23,291+	25,028+	85,228+	529-	10,521+	4,872+	326-	18,858+	463,435+

SUMMARY FOR SYSTEM

Bills Discounted for week	$30,271+
Bills Purchased for week	17,812-
Government Securities for week	15,072-
Total Earning Assets for week	2,613-
Comparison of Weekly Average of Earning Assets Dec. 28, 1927 to May 16, 1928 with same period 1927	269,903+
Comparison of Weekly Average of Earning Assets Dec. 28, 1927 to May 16, 1928 with entire year 1927	182,798+
Comparison of Earning Assets May 16, 1928 with May 18, 1927	463,435+

Exhibit "C"

STATEMENT SHOWING ACTUAL EARNINGS OF ALL FEDERAL RESERVE BANKS FOR THE FIRST FOUR MONTHS IN 1928

Federal Reserve Bank	Gross Earnings	Current Expenses	Net deduction from current net earnings	Available for depreciation allowances, reserves, surplus and franchise tax
Boston	$ 1,268,234	$ 610,518	$ 198,317	$ 459,399
New York	3,927,873	2,151,306	837,998	938,569
Philadelphia	1,355,514	671,289	290,846	393,379
Cleveland	1,632,614	880,387	296,714	455,513
Richmond	712,763	467,942	139,535	105,286
Atlanta	632,003	413,298	101,416	117,289
Chicago	2,227,286	1,282,253	389,677	555,356
St. Louis	756,299	450,765	105,982	199,552
Minneapolis	447,712	342,551	66,778	38,383
Kansas City	725,873	564,314	78,564	82,995
Dallas	548,313	408,155	117,792	22,366
San Francisco	1,312,776	811,422	203,999	297,355
Total	$15,547,260	$9,054,200	$2,827,618	$3,665,442
			Total for same period 1927	$1,901,358

EXHIBIT "D"

BILLS PURCHASED OUTRIGHT BY SYSTEM BY WEEKS FROM DECEMBER 29, 1927 TO MAY 9, 1928

(000 Omitted)

Weeks Ending	Boston	New York Banks	New York Dealers	New York Total	Phila.	Cleveland	Richmond	Atlanta	Chicago	Dallas	San Fran.	Totals.
Jan. 4	$ 3,029	$ 18,275	$ 8,202	$26,477	$ 4,083	$ 1,200	$1,724	$ 241	$ 2,897	$ 1,149	$ 3,164	$ 43,964
" 11	12,855	28,708	20,825	49,533	2,147	2,080	200	66	1,293	1,711	2,700	72,585
" 18	5,472	26,824	7,351	34,175	4,899	530	130	222	2,320	779	2,304	50,831
" 25	5,584	19,208	4,565	23,773	4,696	713	210	88	5,028	506	1,275	41,873
Feb. 1	11,071	40,225	4,946	45,171	5,411	1,613	155	152	5,713	1,042	2,367	72,695
" 8	7,508	14,111	5,702	19,813	4,842	2,272	435	32	4,393	762	1,099	41,154
" 15	1,083	4,584	6,174	10,758	5,177	716	-0-	457	388	210	1,053	19,842
" 21	3,736	10,531	2,839	13,370	3,820	809	-0-	131	1,356	584	439	24,245
" 29	3,407	17,003	3,760	20,763	4,641	252	918	98	2,109	275	1,649	34,112
Mar. 7	4,015	15,991	2,375	18,366	928	1,909	244	107	1,738	1,259	1,001	29,567
" 14	7,162	17,290	5,214	22,504	2,342	380	215	105	2,586	1,152	1,670	38,066
" 21	4,529	16,891	2,733	19,624	2,921	723	270	4	2,840	1,034	4,968	36,913
" 28	8,591	26,150	2,042	28,192	2,409	714	-0-	30	1,676	926	997	43,535
Apr. 4	10,256	21,347	5,903	27,250	6,476	795	450	348	7,849	281	2,297	56,002
" 11	21,547	15,300	3,744	19,044	3,853	184	100	107	2,041	1,377	1,704	49,957
" 18	13,632	19,997	10,643	30,640	7,770	500	122	60	4,898	1,041	4,830	63,493
" 25	15,553	23,258	6,623	29,881	5,500	-0-	398	203	622	1,132	3,391	56,680
May 2	7,510	24,765	6,253	31,018	3,366	727	-0-	5	2,025	1,364	1,459	47,474
" 9	4,703	20,887	10,938	31,825	4,771	100	1,134	184	2,319	638	278	45,952
TOTALS	$151,243	$381,345	$120,832	$502,177	$80,052	$16,217	$6,703	$2,640	$54,041	$17,222	$38,645	$868,940

Weeks Ending	INCREASE or DECREASE In Holdings Including Sales Contracts: New York Operations	System Operations	Dealers Operations With Other Districts: Received	Sent
Jan. 4	$ 4,400-	$ 1,600+	$ 2,773	$ 7,658
" 11	1,900+	5,400+	1,835	12,008
" 18	13,700-	23,500-	1,505	7,320
" 25	15,500-	21,700-	2,836	9,901
Feb. 1	30,700+	30,000+	4,962	9,928
" 8	13,800-	8,100-	5,299	9,526
" 15	15,200-	14,500-	3,337	3,463
" 21	2,100-	1,500-	2,461	6,827
" 29	9,300-	9,500-	3,631	4,802
Mar. 7	8,700-	5,300-	2,384	4,437
" 14	7,700+	4,900+	1,313	5,061
" 21	10,500-	10,600-	1,916	6,091
" 28	12,600+	13,500+	919	10,736
Apr. 4	2,800-	2,500-	5,746	12,589
" 11	1,600-	18,000+	1,075	17,812
" 18	30,500-	10,800-	877	10,170
" 25	1,200+	15,100+	106	12,537
May 2	3,800-	2,700-	8,215	6,712
" 9	1,600+	2,000+	5,146	3,324
TOTALS	$76,200-	$20,200-	$56,336	$160,898

	Outright	Sales Contracts	Net Change
Actual change in System's holdings during period	$28,700+	$48,900-	$20,200-
Based exclusively on New York's operations, change would have been	31,500-	44,700-	76,200-

EXHIBIT "D (a)"

MATURITIES OF BILLS PURCHASED BY THE SYSTEM

DURING THE PERIOD FROM DECEMBER 29, 1927 TO MAY 9, 1928.

EXCLUDING SALES CONTRACTS

(000 OMITTED)

	1-30 days	31-60 days	61-90 days	Over 90-days	Totals
Boston	$ 32,408	$ 28,801	$ 82,764	$ 7,270	$151,243
New York	201,682	146,184	136,534	17,777	502,177
Philadelphia	12,503	27,496	40,053	0	80,052
Cleveland	701	7,557	7,646	313	16,217
Richmond	2,019	2,271	2,413	0	6,703
Atlanta	935	806	899	0	2,640
Chicago	14,145	28,243	11,653	0	54,041
Dallas	3,517	5,240	5,247	3,218	17,222
San Francisco	11,199	14,301	11,552	1,593	38,645
Totals	$279,109	$260,899	$298,761	$30,171	$868,940

333-6-2

Confidential May 24, 1928.

Preliminary Memorandum for the Open Market Investment Committee.

Operations conducted since the meeting at the end of April have been successful in increasing materially the indebtedness of member banks, especially New York City members, and in tightening further the New York money market. Changes in member bank borrowings are summarized below:

(In millions of dollars)

	New York City Member Banks	All Other Member Banks	Total
April 28	172	572	744
May 21	272	608	880

(3)

The increase in the indebtedness of all member banks at the reserve banks increased about 140 million during the three weeks, due chiefly to the following factors:

Reduction in the System Account from $154,000,000 on April 27 to $100,000,000 on May 23.

Gold loss through additional earmarkings of 68 1/2 million and net exports of 16 million.

Reduced buying of bills and consequent reduction of about 25 million in Reserve Bank bill holdings.

Read

As the tabulation above indicates, most of the increase in member bank borrowing has been by New York City banks. Advances in discount rates of five Reserve Banks from 4 to 4 1/2 per cent in the latter part of April appear to have greatly assisted in keeping funds from flowing to New York, and consequently helped to make effective the further sales of securities in the New York market. The result is apparent in the course of money rates previous to the advance in the discount rate of the New York Reserve Bank on May 18. The advance at New York after New York

City members had been placed heavily in debt at the Reserve Bank has been effective in tightening the money market further. Present money rates and changes since the latter part of April and since the latter part of last October are indicated in the following table:

	May 23 1928	Change Since April 27 1928	Change Since October 28 1927
Call money	6	+ 1	+ 2 1/2
Time money, 90-day	5 1/2	+ 1/2	+ 1 1/4
Commercial paper	4 1/2 - 4 3/4	+ 1/8	+ 1/2 - 3/4
Bills, 90-day	4 - 4 1/8	+ 1/8 - 1/4	+ 3/4 - 7/8

These rates are the highest for the time of year since 1923. It is evident that rates on security loans have been advanced much more than rates on commercial borrowing, which is in keeping with the nature of credit expansion in recent months.

Loans on Stocks and Bonds

Notwithstanding the substantial increase in interest charges on security loans, such loans have continued to increase rapidly. A further increase of over 350 million during the past three weeks has carried the total of loans to brokers placed by New York City banks to 4 1/2 billion dollars, an amount 800 million higher than in the first week of March, and nearly 1,600 million or 55 per cent larger than a year ago. Changes in these loans during the past three weeks are summarized below:

(In millions of dollars)

	April 25	May 16	Change
Loans placed:			
For own account	1,200	1,312	+ 112
For out-of-town banks	1,614	1,655	+ 41
For others	1,331	1,535	+ 204
Total	4,145	4,502	+ 357

Most of the increase during this period has been in loans of

New York banks for their own account, and in loans for others than banks. The heavy indebtedness of New York banks, together with the recent advance in the discount rate of the New York bank, should give these banks an incentive to restrict their lendings.

It is too early to determine the effect of this latest move in checking credit expansion. The movement of stock prices, which rather than the volume of trading has caused the expansion of security loans, has been highly irregular during the past week, - evidence of fairly heavy liquidation on several days has been followed by a recovery.

Interdistrict Movement of Funds

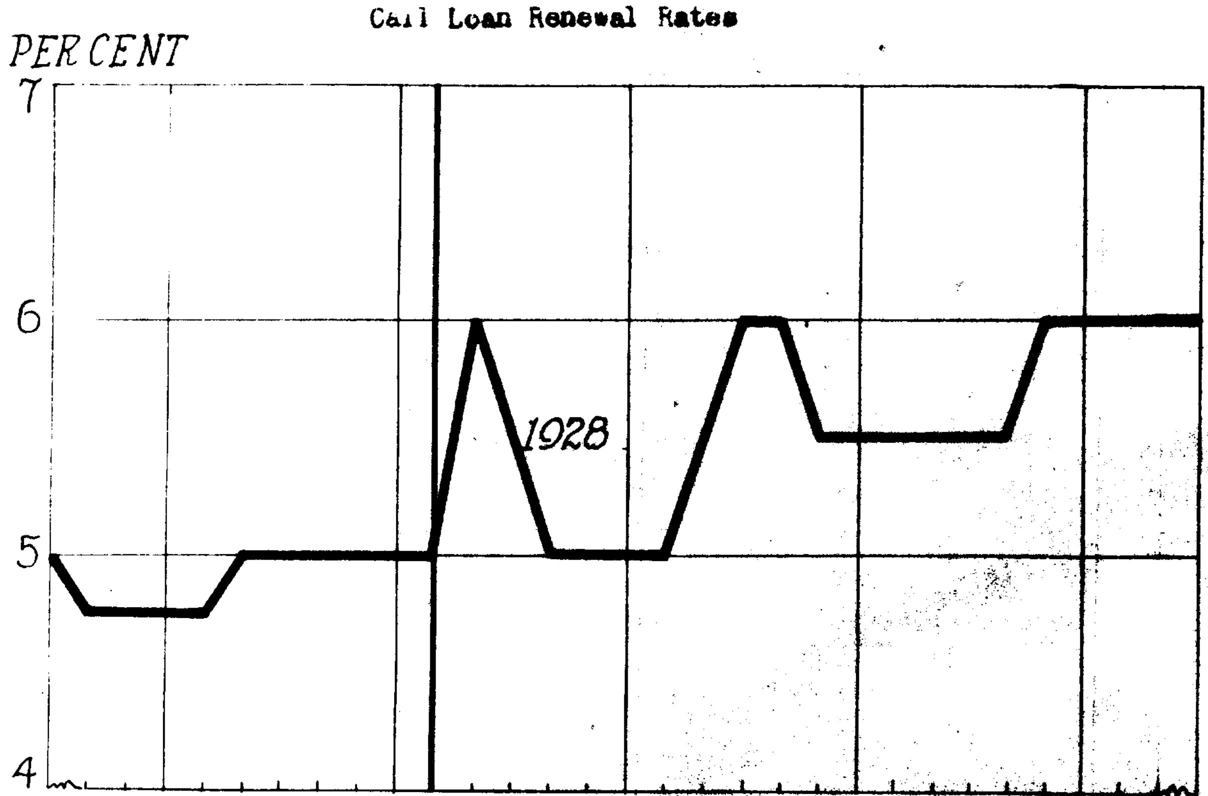
The flow of funds to and from the New York money market is also an important factor in the extension of credit for stock trading purposes. It has been apparent in more than one instance since the beginning of this year that an inflow of funds to New York has largely offset the effect of open market operations; it has been apparent also that banks in other parts of the country as a whole have had no surplus funds since the end of January, but that these transfers were accompanied by increased borrowing by member banks outside of New York.

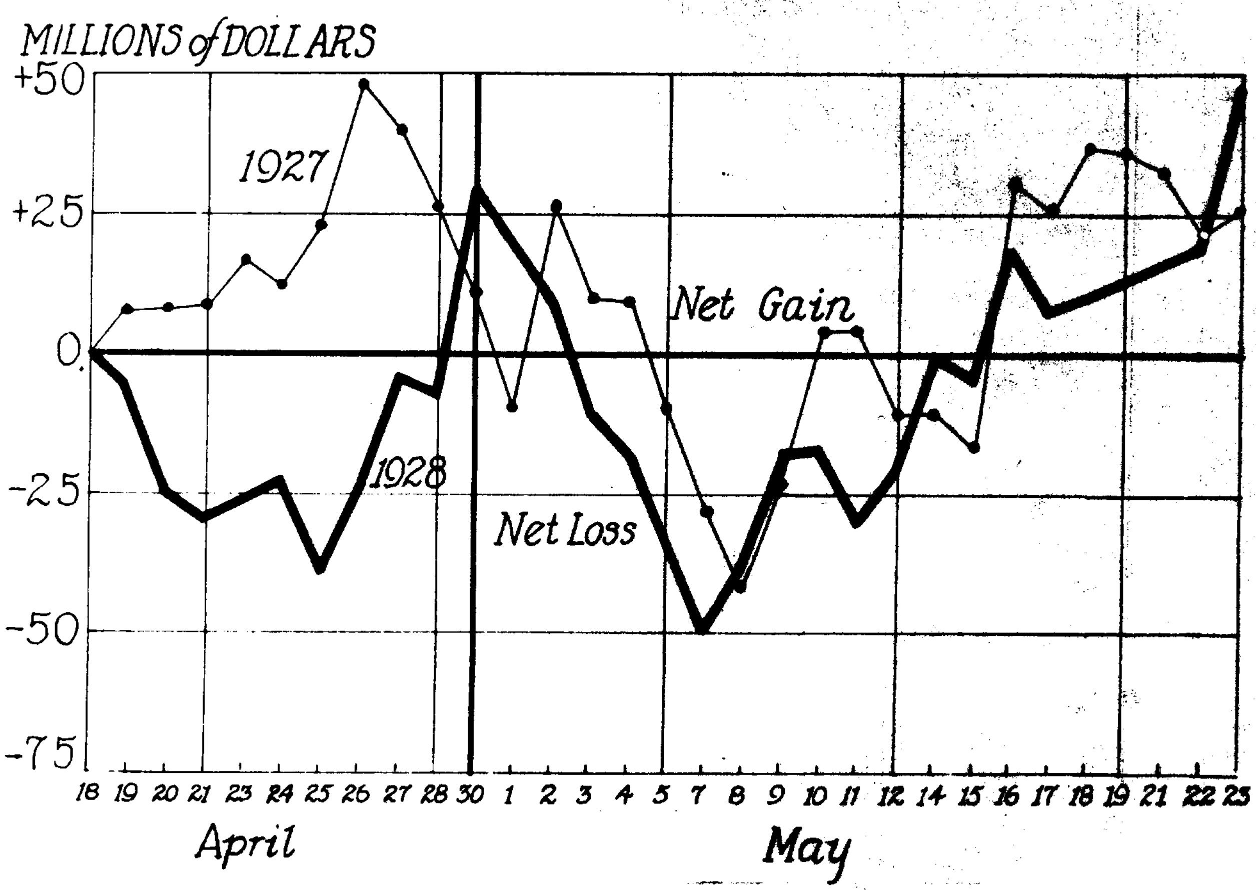
The accompanying chart shows the accumlative movement of funds to and from New York City banks since April 18, the date that marked the culmination of a heavy inflow of funds to New York, and that just preceded the beginning of Reserve Bank advances in discount rates. Call loan renewal rates also are shown.

The decline in call money renewals to 4 3/4 at the beginning of the period, together with Reserve Bank discount rate advances in several districts, appear to have caused some withdrawal of funds from New York until the end of April. The usual month-end inflow and subsequent outflow followed, and recently some movement of funds to New York has accompanied 5 1/2

Sp 1659

Call Loan Renewal Rates





Accumulative Movement of Funds to and from N.Y.Banks since April 18th to 6 per cent call money. This latest inflow thus far has been moderate, but the further rise of money rates since the discount rate of the New York Reserve Bank was advanced may tend to draw funds more heavily toward New York.

Conclusions

1 - Further Reserve Bank security sales, restriction of bill purchases, and gold loss have substantially increased member bank indebtedness, and have caused a further advance in money rates.

2 - Advances in discount rates of several Reserve Banks other than New York, most of which occurred in the latter part of April, appear to have been effective in preventing a further flow of funds to the New York money market, and in confining the increase in member bank indebtedness largely to New York.

3 - The increase in indebtedness of New York members and the rise in money rates previous to the advance in the discount rate of the New York Reserve Bank did not check the expansion of credit used for security trading purposes.

4 - The advance in the discount rate of the New York bank, after New York member banks had been placed heavily in debt, has resulted in a further tightening of the New York money market.

5 - This further advance in money rates may tend to attract funds from other sections of the country, which would neutralize the effect of further security operations.

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

333.-6-2

RECEIVED AT WASHINGTON, D. C.

196

BN

NewYork 451p May 18 1928

Young

Washn

Confirming our talk by telephone today. Meeting of open market investment committee originally called for Tuesday May 22 has been postponed to Friday May 25 ten AM office of Board Washington.

Case

402p

Noted
AT BOARD MEETING
MAY 18 1928

U. S. GOVERNMENT PRINTING OFFICE: 1928 2—11901

333-62

FEDERAL RESERVE BANK

OF NEW YORK

May 16, 1928.

Dear Governor Platt:

Following my talk with you last Monday, I have arranged for a meeting of the Open Market Investment Committee, to be held at Washington on Tuesday, May 22, at ten a. m., in the office of the Federal Reserve Board.

I am hoping that it may be possible for the committee to meet with the Federal Reserve Board at about eleven o'clock that morning.

Very truly yours,

J H Case

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

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

Postponed to 24th

see telegram 5/18/28

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

333.-6

Date May 14, 1928

To All Members of the Board

Subject:

From Mr. Eddy

2—8495
G P O

At the meeting this morning there was ordered circulated the attached letter dated May 7th, from the Acting Secretary of the Open Market Investment Committee, transmitting copies of minutes of the meetings of the Committee held in Washington April 29th and 30th.

4/29/28 + 4/30/28 filed 333.-6-2

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

Please circulate promptly and return to the Secretary's Office.

333.-6-2

May 14, 1928.

Dear Mr. Harrison:

Your letter of May 7th was received in due course and the minutes of the Open Market Investment Committee held on April 29th and 30th, which were transmitted therewith, have been brought to the attention of the members of the Board. filed 333.-6-2 Final Minutes

Very truly yours,

(Signed) Walter L. Eddy

Walter L. Eddy,
Secretary.

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

May 8, 1928

Dear Mr. Harrison:

This will acknowledge receipt of your letter of May 7, enclosing a copy of the minutes of the meetings of the Open Market Investment Committee held in Washington on April 29 and 30.

Yours very truly,

R. A. Young,
Governor.

Mr. Geo. L. Harrison,
Deputy Governor,
Federal Reserve Bank,
New York City, N. Y.

322-6

May 8, 1928

Dear Mr. Harrison:

Receipt is acknowledged of your letter of May 7th, transmitting copy of the minutes of the meetings of the Open Market Investment Committee held in Washington on April 29th and April 30th, together with copies of the secretary's report and the preliminary memorandum which were presented to the committee. These documents are being brought to the attention of all members of the Board.

Very truly yours,

J. C. Noell,
Assistant Secretary

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

333-6-2

FEDERAL RESERVE BANK
OF NEW YORK

CONFIDENTIAL

May 7, 1928.

S i r s :

4/29/28 & 4/30/28 filed 333.-6-2 Final Minutes

I beg to enclose herewith a copy of the minutes of the meetings of the Open Market Investment Committee held in Washington on April 29 and April 30, together with a copy of the secretary's report dated April 30, and a copy of the preliminary memorandum considered by the committee, dated April 27.

Very truly yours,

GEORGE L. HARRISON,
Acting Secretary, Open
Market Investment Committee.

Federal Reserve Board,

Washington, D. C.

Encs.

Ordered Circulated
AT EXECUTIVE COMMITTEE
MEETING,

MAY 14 1928

see ans 5/14/28
see ans 5/8/28

333.-6 ✓

RECEIVED
MAY 8 1928

FEDERAL RESERVE BANK
OF NEW YORK

CONFIDENTIAL

May 7, 1928.

Dear Governor Young:

I am enclosing herewith for your confidential informa-
4/29/28 + 4/30/28 filed 333.-6-2 Final Minutes
tion a copy of the minutes of the meetings of the Open Market In-
vestment Committee held in Washington on April 29 and April 30.
The supplementary confidential memoranda referred to in the minutes were handed to you in Washington so that they are not attached to the enclosed minutes.

Very truly yours,

George L. Harrison

GEORGE L. HARRISON,
Acting Secretary, Open
Market Investment Committee.

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

Encs.

CONFIDENTIAL

333.-6-2

REPORT OF THE SECRETARY OF THE OPEN MARKET INVESTMENT COMMITTEE TO THE GOVERNORS' CONFERENCE, APRIL 30, 1928

The holdings of Government securities in the Special Investment Account at the time of the last Governors' Conference, held in Washington in November 1927, amounted to approximately - $375,000,000
Since that time there have been several changes in the amount of total holdings in the account as follows:

1927

Nov. & Dec. Account increased by purchase of $45,000,000 Government securities to offset in part the loss of funds to the market due to earmarking and shipping of gold for foreign correspondents, which from the latter part of October 1927 to the first of January 1928 amounted to $194,000,000. (Further ear-marking and shipping of gold since the first of the year has amounted to $121,000,000 net, making the total amount of this gold movement since last October about $315,000,000.)

These purchases of Government securities, amounting to $48,000,000 were made under authority given the Committee at the meeting held in Washington on November 1, 1927, and increased the total holdings in the account to about - $423,000,000

1928

Jan. & Feb. Account decreased by sale of $150,000,000 Government securities under authority given to the Committee at the meeting held in Washington on January 12, 1928, at which time the Committee was charged with the policy of working towards somewhat firmer money conditions, and as far as necessary to check unduly rapid further increases in the volume of credit.

These sales of Government securities amounting to $150,000,000 decreased the total holdings in the account from $423,000,000 to - - - - $273,000,000

March & April Account further decreased by sale of about $103,000,000 Government securities under authority given to the Committee at the meeting held in Washington on March 26, 1928, at which time the Committee was charged with the program of making more effective, prevailing rediscount rates of the Federal reserve banks.

These additional sales amounting to about $103,000,000 decreased the total holdings in the account, as of close of business April 25, 1928, to - $170,000,000

Other principal transactions effected in the account since last November (which either did not change the total holdings or changed them only temporarily) consisted of

November 1927	Exchange in the New York and Chicago markets of		
		\$54,098,800	U. S. 3 1/2% Treasury Notes due 1930-32 and
		25,000,000	" " 4 1/4% Fourth Liberty Loan bonds for
		\$79,098,800	a like amount of short-term Governments, the greater portion of which consisted of 3 1/8% certificates maturing June 15, 1928.
December 1927	Sale of	\$92,575,000	4 1/2% Treasury notes maturing December 15, 1927 to the fiscal agent of the British Government to be used by them in making payment to the United States Government account British Government Debt. About \$58,000,000 of these certificates were acquired from foreign correspondents on December 15 for resale to the Agent of the British Government and we purchased from the latter, in exchange, a like amount of 3 1/2% Treasury notes due March 15, 1932.
December 1927	Sale of	\$37,560,000	short-term Governments to foreign correspondents to partly replace their holdings of 4 1/2% notes which matured December 15, 1927 against which sales offsetting purchases of other issues of short-term Governments had been made.
December 1927	Exchange in the market of about	\$60,000,000	of the 3 1/2% Treasury notes due March 15, 1932 acquired from the fiscal agent of the British Government for a like amount of the shorter-term Governments.
January 1928	Sale on Jan. 4 of	\$22,000,000	3 1/4% certificates of indebtedness due March 15, 1928 to the fiscal agent of the British Government. This sale was replaced by purchase of other issues of short-term Governments in the market.
January 1928	Exchange in the market of	\$45,000,000	4 1/4% Third Liberty Loan bonds for a like amount of short-term Government paper. These Third Liberty Loan bonds were sold to satisfy the demand in the market for this issue of bonds to be used in connection with the exchange for new 3 1/2% Treasury notes due December 15, 1930-32 under the Treasury's exchange offering.

January 1928	- Exchange of	$100,000,000	4 1/4% Third Liberty Loan bonds for a like amount of the 3 1/2% Treasury notes due December 15, 1932 under the Treasury's offering. This exchange was in accordance with the action taken at the Committee meeting held in Washington on January 12.
February 1928	- Exchange in the market of	$ 41,000,000	3% certificates maturing March 15, 1928 for a like amount of the 3 1/8% certificates maturing June 15, 1928 and 3 1/4% certificates maturing December 15, 1928, in order to meet the requirements of our foreign correspondents.
March 1928	- Exchange with fiscal agent of British Government of	$30,000,000	3 1/4% certificates of indebtedness due December 15, 1928 for a like amount of 3% certificates maturing March 15, 1928. The latter issue of certificates together with $4,125,000 of the 3 1/4% certificates maturing March 15 were sold to the Treasury for redemption during the period March 8 to March 14 inclusive, and were replaced in the account by purchase of other issues of short-term Governments.
March 15, 1928	- Sales to Treasury of	$ 23,768,500	June 3 1/8% certificates for account of Alien Property Custodian and Mixed Claims in exchange for a like amount of the new 3 1/4% certificates due December 15, 1928 which they had acquired by subscription in exchange for their holdings of March 15 maturities. This exchange was effected in order to accommodate the Treasury with the shortest term Government paper for these Treasury accounts.
March 15, 1928	- Sales to foreign correspondents of	$105,000,000	short-term Governments, principally 3 1/8% certificates maturing June 15, 1928 in partial replacement of their holdings of March 15 maturities.

These transactions constitute a total turnover of more than $600,000,000.

On November 25 the Federal Reserve Bank of Minneapolis, due to its reserve position, sold $5,000,000 of Government securities from its participation in the System Account. These securities were apportioned to the other participating banks and a like amount of bills was sold them by the New York bank from its portfolio.

On December 2 the Federal Reserve Bank of Dallas, due to its reserve position, sold $5,000,000 of Government securities from their participation in the System Account. These securities were apportioned to the other participating banks, and the Federal Reserve Bank of New York sold to Dallas from its portfolio $5,000,000 bankers acceptances.

On January 5, 1928 the Federal Reserve Bank of Atlanta, due to an anticipated loss in their gold settlement fund, requested that they be temporarily relieved of $3,000,000 Government securities from their participation in the System Account. Due to the fact that this request was received too late in the day to make apportionment, these securities were purchased by the Federal Reserve Bank of New York on January 5 and apportioned to the other participating banks on January 6. The Reserve Bank of Atlanta repurchased these securities on Saturday, January 7.

Attached are statements showing:

Exhibit A - Participation of Federal reserve banks in System Special Investment Account Government securities and classification of issues held in the account by maturities as of close of business April 25, 1928.

Exhibit B - Statement showing earning asset holdings of all Federal reserve banks April 25, 1928, as compared with previous week and April 27, 1927; also weekly average of earning assets from December 28, 1927 to April 25, 1928, as compared with corresponding period 1927 and entire year 1927.

Exhibit C - Statement showing actual earnings of all Federal reserve banks for the first three months in 1928.

Exhibit "A"

STATEMENT SHOWING PARTICIPATION BY FEDERAL RESERVE BANKS IN SYSTEM SPECIAL INVESTMENT ACCOUNT AND CLASSIFICATION OF ISSUES HELD APRIL 25, 1928 IN THE ACCOUNT BY MATURITIES

Boston	$ 13,130,500	Dec. 15, 1928 - 3 1/4% C/I (old)	$61,239,000
New York	45,155,800	Dec. 15, 1928 - 3 1/4% " (new)	32,818,500
Philadelphia	12,251,500	June 15, 1928 - 3 1/8% "	13,140,000
Cleveland	14,177,500	March 15, 1929 - 3 3/8% "	19,450,000
Richmond	4,541,000	March 15, 1932 - 3 1/2% T/N	13,990,000
Atlanta	3,991,500	Sept. 15, 1932 - 3 1/2% "	5,000,000
Chicago	26,212,500	Dec. 15, 1932 - 3 1/2% "	24,440,800
St. Louis	8,660,000		
Minneapolis	6,570,000		
Kansas City	11,540,000		
Dallas	9,227,000		
San Francisco	14,621,000		
Totals	$170,078,300		$170,078,300

Exhibit "B"

STATEMENT SHOWING EARNING ASSET HOLDINGS OF ALL FEDERAL RESERVE BANKS APRIL 25, 1928 COMPARED WITH PREVIOUS WEEK AND APRIL 27, 1927; ALSO WEEKLY AVERAGE OF EARNING ASSETS FROM DECEMBER 28, 1927 TO APRIL 25, 1928 AS COMPARED WITH CORRESPONDING PERIOD 1927 AND ENTIRE YEAR 1927

(000 Omitted)

	Boston	New York	Phila.	Cleveland	Richmond	Atlanta	Chicago	St.Louis	Minn.	Kan. City	Dallas	San Fran.	TOTALS
Bills Discounted - April 18	$56,396	$153,029	$48,191	$57,251	$33,359	$42,717	$74,298	$41,437	$14,090	$23,369	$ 8,705	$66,775	$ 619,617
" " " 25	41,317	242,617	44,211	56,249	36,408	47,730	97,544	34,656	13,867	19,448	9,471	65,555	709,073
Net Change	15,079-	89,588+	3,980-	1,002-	3,049+	5,013+	23,246+	6,781-	223-	3,921-	766+	1,220-	89,456+
Bills Purchased - April 18	67,384	82,328	30,110	29,678	13,337	15,592	39,937	4,497	15,191	13,375	14,578	24,749	350,756
" " " 25	50,926	95,264	32,885	33,115	15,836	18,880	41,345	3,667	18,490	14,797	14,427	26,209	365,841
Net Change	16,458-	12,936+	2,775+	3,437+	2,499+	3,288+	1,408+	830-	3,299+	1,422+	151-	1,460+	15,085+
Government Securities - April 18	16,146	67,526	29,592	42,978	6,493	7,849	52,746	26,807	15,309	26,601	21,768	26,871	340,686
" " " 25	13,838	54,635	27,439	40,486	5,694	7,107	47,170	25,285	14,155	24,273	20,372	24,301	304,755
Net Change	2,308-	12,891-	2,153-	2,492-	799-	742-	5,576-	1,522-	1,154-	2,328-	1,396-	2,570-	35,931-
Total Earning Assets - April 18	139,926	302,883	107,893	129,907	53,189	66,158	166,981	72,741	45,580	63,345	45,051	118,395	1,312,049
" " " " 25	106,081	392,516	104,535	129,850	57,938	73,717	186,059	63,608	47,502	58,518	44,270	116,065	1,380,659
Net Change	33,845-	89,633+	3,358-	57-	4,749+	7,559+	19,078+	9,133-	1,922+	4,827-	781-	2,330-	68,610+
Comparison of Weekly Average of Earning Assets													
Dec. 28, 1927 to Apr. 25, 1928	109,243	321,348	114,888	132,798	58,838	50,260	177,720	64,799	38,289	57,310	46,310	111,458	1,283,261
Same period 1927	73,438	248,643	78,728	110,071	39,760	46,784	159,101	52,996	31,490	52,323	39,976	108,705	1,042,015
Entire year 1927	79,546	282,822	88,085	111,895	55,679	49,115	155,812	59,695	35,537	55,562	46,416	100,415	1,120,579
Net Change from same period 1927	35,805+	72,705+	36,160+	22,727+	19,078+	3,476+	18,619+	11,803+	6,799+	4,987+	6,334+	2,753+	241,246+
" " " entire year 1927	29,697+	38,526+	26,803+	20,903+	3,159+	1,145+	21,908+	5,104+	2,752+	1,748+	106-	11,043+	162,682+
Comparison of Earning Assets													
April 25, 1928	106,081	392,516	104,535	129,850	57,938	73,717	186,059	63,608	47,502	58,518	44,270	116,065	1,380,659
April 27, 1927	49,529	226,869	80,884	106,796	38,921	50,294	144,173	63,857	35,255	54,557	40,134	114,308	1,005,577
Net Change	56,552+	165,647+	23,651+	23,054+	19,017+	23,423+	41,886+	249-	12,247+	3,961+	4,136+	1,757+	375,082+

SUMMARY FOR SYSTEM

Bills Discounted for week	$89,456+
Bills Purchased for week	15,085+
Government Securities for week	35,931-
Total Earning Assets for week	68,610+
Comparison of Weekly Average of Earning Assets Dec. 28, 1927 to April 25, 1928 with same period 1927	241,246+
Comparison of Weekly Average of Earning Assets Dec. 28, 1927 to April 25, 1928 with entire year 1927	162,682+
Comparison of Earning Assets April 25, 1928 with April 27, 1927	375,082+

Exhibit "C"

STATEMENT SHOWING ACTUAL EARNINGS OF ALL FEDERAL RESERVE BANKS FOR THE FIRST THREE MONTHS IN 1928

Federal Reserve Bank	Gross Earnings	Current Expenses	Net deduction from current net earnings	Available for depreciation allowances, reserves, surplus and franchise tax
Boston	$ 941,712	$ 460,053	$ 148,659	$ 333,000
New York	2,867,040	1,612,716	623,415	630,909
Philadelphia	1,037,989	519,625	220,595	297,769
Cleveland	1,235,741	670,469	223,874	341,398
Richmond	547,427	351,302	105,208	90,917
Atlanta	438,460	307,898	74,823	55,739
Chicago	1,670,467	975,767	295,387	399,313
St. Louis	577,304	339,174	76,000	162,130
Minneapolis	330,070	259,316	55,878	14,867
Kansas City	547,587	422,862	57,775	66,950
Dallas	415,168	307,493	74,820	32,855
San Francisco	992,044	607,828	151,005	233,211
Total	$11,601,009	$6,834,503	$2,107,439	$2,659,067

Total for same period 1927 $1,570,259

333.-6

Confidential

(5)

April 29, 1928.

Report of the Open Market Investment Committee.

"The Committee has considered the memorandum submitted by the Chairman, and has carefully reviewed the Open Market operations of the System since the last meeting of the Committee, in the light of the general credit situation referred to in the memorandum.

In view of the fact that it now appears that the expansion in the total volume of bank credit, referred to in its last report, has continued at what seems to be an unduly rapid rate since that time, notwithstanding the sales of securities made by the Committee and the recent increase in the discount rates of some of the Reserve Banks, the Committee now recommends that the general policy adopted at its last meeting be continued until its next meeting, which it would expect to hold shortly after the middle of June, unless conditions make an earlier meeting advisable.

The Committee would expect to make such changes in the Open Market account as might be necessary to carry out the policy recommended."

333.-6.

CONFIDENTIAL April 27, 1928.

Preliminary Memorandum for the Open Market Investment Committee.

Since the last meeting of the Committee on March 26, 1928, there has been a renewed ~~expansion of bank~~ credit, largely in the form of loans on stocks and bonds. Changes in the loans and investments of reporting member banks are summarized below:

	(in millions of dollars) March 21	April 18	Change
Commercial loans - - - - - - - - -	8,936	9,070	+134
Loans on stocks and bonds - - -	6,334	6,693	+359
Investments - - - - - - - - - - -	6,655	6,618	- 37
Total	21,925	22,381	+456

This increase occurred largely at the end of March and in the early part of April, but it is not clear that the tendency toward expansion has been checked as yet, notwithstanding a considerable rise in money rates during the month.

Since March 26, further sales of approximately $119,000,000 of securities from the System Account have been made, reducing the amount in the open market portfolio from $273,000,000 to $154,000,000. In addition there has been a loss to the market of about $57,000,000 through gold exports and earmarking since the last meeting, and reserve requirements of member banks have been increased approximately $50,000,000 as the result of credit expansion. The combined effect has been to increase member bank indebtedness at the Reserve Banks by over $200,000,000 during the past five weeks, and money rates in general have advanced.

Changes in rates since March 26 are as follows:

	March 26, 1928	April 27, 1928
Call money - - - - - - - - - - - - - - - - -	4 1/2	5
Time money, 90-day - - - - - - - - - - - - -	4 5/8 - 3/4	5
Commercial paper - - - - - - - - - - - - - -	4 - 4 1/4	4 1/2
Bills, 90-day - - - - - - - - - - - - - - -	3 1/2	3 7/8

Call Money Market

Call money advanced to 6 per cent early in April partly as the result of Easter currency requirements and the usual first of the month flow of funds to the interior, but subsequently declined to 4 1/2 per cent on several days around the middle of the month, due to a heavy flow of funds to New York from other districts, which appears to have been accompanied by renewed borrowing by member banks outside of New York.

Following the advance in the rediscount rate of several Reserve Banks from 4 to 4 1/2 per cent in the latter part of April, there was some withdrawal of funds from New York, indebtedness of New York City banks was increased, and call money advanced to 5 per cent.

Commercial Borrowing and the Condition of Business

The increase in commercial loans of reporting banks from the end of January to the middle of April was unusually large this year, and it now appears that requirements are tending to diminish. Productive activity appears to be fairly stable following a rapid recovery in a number of important industries earlier in the year, and trade has been in moderate volume.

Conclusions

1. An excessively rapid increase of bank credit has occurred during the past month, and it is not clear that the tendency toward expansion has been halted.

2. Money rates have advanced further as the result of security sales, gold losses, and increased reserve requirements.

3. The advance in discount rates of five Reserve Banks appears to have resulted in some withdrawal of funds from New York, and thus to have assisted in preventing softness in the New York money market.

4. The highest point of seasonal business credit requirements has probably passed and there is no indication that the tightening of the money market has interfered with the extension of all necessary credit to business.

5. After the May first interest and dividend requirements have been met, the normal tendency would be toward easier rates.

333-6-2

CONFIDENTIAL. (4) April 27, 1928.

Preliminary Memorandum for the Open Market Investment Committee.

¶ Since the last meeting of the Committee on March 26, 1928, there has been a renewed expansion of bank credit, largely in the form of loans on stocks and bonds. Changes in the loans and investments of reporting member banks are summarized below:

(in millions of dollars)

	March 21	April 18	Change
Commercial loans - - - - - - - -	8,936	9,070	+134
Loans on stocks and bonds - -	6,334	6,693	+359
Investments - - - - - - - - - -	6,655	6,618	- 37
Total - - - -	21,925	22,381	+456

This increase occurred largely at the end of March and in the early part of April, but it is not clear that the tendency toward expansion has been checked as yet, notwithstanding a considerable rise in money rates during the month.

Since March 26, further sales of approximately $119,000,000 of securities from the System account have been made, reducing the amount in the open market portfolio from $273,000,000 to $154,000,000. In addition there has been a loss to the market of about $57,000,000 through gold exports and earmarking since the last meeting, and reserve requirements of member banks have been increased approximately $50,000,000 as the result of credit expansion. The combined effect has been to increase member bank indebtedness at the Reserve Banks by over $200,000,000 during the past five weeks, and money rates in general have advanced.

Changes in rates since March 26 are as follows:

	March 26, 1928	April 27, 1928
Call money - - - - - - - - - - - - - - - - - -	4 1/2	5
Time money, 90-day - - - - - - - - - - - - - -	4 5/8 - 3/4	5
Commercial paper - - - - - - - - - - - - - - -	4 - 4 1/4	4 1/2
Bills, 90-day - - - - - - - - - - - - - - - -	3 1/2	3 7/8

Call Money Market

Call money advanced to 5 per cent early in April partly as the result of Easter currency requirements and the usual first of the month flow of funds to the interior, but subsequently declined to 4 1/2 per cent on several days around the middle of the month, due to a heavy flow of funds to New York from other districts, which appears to have been accompanied by renewed borrowing by member banks outside of New York.

Following the advance in the rediscount rate of several Reserve Banks from 4 to 4 1/2 per cent in the latter part of April, there was some withdrawal of funds from New York, indebtedness of New York City banks was increased, and call money advanced to 5 per cent.

Commercial Borrowing and the Condition of Business

The increase in commercial loans of reporting banks from the end of January to the middle of April was unusually large this year, and it now appears that requirements are tending to diminish. Productive activity appears to be fairly stable following a rapid recovery in a number of important industries earlier in the year, and trade has been in moderate volume.

Conclusions

1. An excessively rapid increase of bank credit has occurred during the past month, and it is not clear that the tendency toward expansion has been halted.

2. Money rates have advanced further as the result of security sales, gold losses, and increased reserve requirements.

3. The advance in discount rates of five Reserve Banks appears to have resulted in some withdrawal of funds from New York, and thus to have assisted in preventing softness in the New York money market.

4. The highest point of seasonal business credit requirements has probably passed and there is no indication that the tightening of the money market has interfered with the extension of all necessary credit to business. ?

5. After the May first interest and dividend requirements have been met, the normal tendency would be toward easier rates.

333.-b-2
3/26/28

**Minutes of meeting of Open Market
Investment Committee for the Federal Reserve
System held March 26, 1928** [redacted] filed 333.-b-2 Final Minutes

333.6-2

WHEREAS at a meeting of the Federal Reserve Board and the Open Market Investment Committee held on January 12, 1928, it appeared to the members of the Board and the Committee that operations in the Open Market Investment Account of the Federal Reserve System should be directed toward bringing about somewhat firmer money conditions as far as necessary to check unduly rapid further increases in the volume of credit; 3/26/28

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

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

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

NOW, THEREFORE, BE IT RESOLVED, That the Federal Reserve Board approve the policy recommended by the Open Market Investment Committee in its written

See [illegible] 3-26-[illegible] 333.3

and verbal reports of this date and authorize said Committee to make further sales of Government securities from time to time up to May 1, 1928, at about which time another meeting of the Committee with the Federal Reserve Board will be held unless a change in the situation makes earlier reconsideration desirable.

Adopted
AT BOARD MEETING
MAR 26 1928

WHEREAS, in furtherance of ~~accordance with~~ the above stated policy approximately $~~150~~ 125,000,000 of securities ~~was~~ were sold from the Investment Account, which policies together with an increase in the rediscount rate at 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 change in the rediscount rate could be more closely observed;

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

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

Out.

~~WHEREAS it now appears to the Federal Reserve Board, following consultation with the members of the Open Market Investment Committee, that operations in the Open Market Investment Account should be conducted with a view to making more effective the present rediscount rates of the Federal Reserve Banks;~~ and after and without increasing the prevailing

[illegible]

THEREFORE, BE IT RESOLVED, That the Federal Reserve Board authorize said Open Market Investment Committee to make further sales of Government securities from time to time up to May 1, 1928, at about which time another meeting of the Committee with the Federal Reserve Board will be held unless a change in the situation makes earlier reconsideration desirable.

333.-b 2

Resolution

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

3/24-28

3/26/28

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

The Committee therefore recommends that the general policy recommended in January be continued until another meeting is held at the time of the Governors' Conference unless or until a change in the situation makes an earlier reconsideration desirable. The committee would expect to make such changes in the open market account as are necessary to carry out the policy.

Submitted
AT BOARD MEETING
MAR 26 1928
W

330-6-2

Bd adheres to policy in belief that a change of earning assets from Govt secs to discounted paper will enable the system better to control the credit situation now & in the immediate future ~~agric & comm credit situation~~ without the necessity of increasing discount rates when agric. + commerce

3/26/28

which may have a menace to agric + business, without the nec. of increasing disc rates

I vote for the resolution in the belief that the FR System, by a change of its assets from Govt secs to discounted paper, will be in a better position to protect the interests of com. and agriculture now and in the immediate future without an increase in discount rates.

Statement of Mr. C. S. Hamlin - See minutes March 26, 1928

322.1-2

Mr. Miller stated that he voted "No" because of

(1) ~~Because of~~ The absence of any evidence of expansion of borrowings for commercial purposes beyond what is seasonal and proper in character; 3/26/28

(2) ~~Because of~~ The uncertainty still characterizing the business outlook following the recent recession of the autumn and winter;

(3) The adverse influence on business recovery that increased money rates may be expected to exert; and

(4) The almost certain influence that further firming of money conditions such as is contemplated by the program of the Open Market Committee and a policy of further sales of securities to the open market may be expected to have in advancing money rates.

"I am of the opinion," said Mr. Miller, "that the adoption or the approval by the Board of a policy of further firming money conditions will be inadvisable until the whole situation with respect to the probable future course of trade and industry is clearer. The present status of the stock exchange loan account of the banks is not, in my opinion, sufficient justification for a policy of further firming of money at this time."

See Minutes March 26, 1928

333.-8-2

REPORT OF THE SECRETARY TO THE OPEN MARKET INVESTMENT COMMITTEE MEETING AT WASHINGTON, MARCH 26, 1928

At the meeting of the Open Market Investment Committee held in Washington on November 1, 1927 (during the week of the Governors' Conference) the Committee was charged with the policy until March 1, (unless developments not anticipated required a further review,) of maintaining stable rates for money at or about the levels prevailing at that time and to prevent further imports of gold. In line with this action, purchases of Government securities amounting to approximately $45,000,000 were made during November and December offsetting in part the loss of funds to the market due to the earmarking and shipping of gold for foreign correspondents, which from the latter part of October 1927 to the first of January 1928 amounted to $194,000,000. (Further earmarking and shipping of gold since the first of the year has amounted to $67,000,000, making the total amount of this gold movement since last October about $260,000,000).

These purchases of Government securities amounting to $45,000,000 increased the total holdings in the account from the amount held at the time of the Committee meeting in November to about $423,000,000.

Other principal transactions effected in the account since last November (which either did not change the total holdings or changed them only temporarily) consisted of

November 1927 - Exchange in the New York and Chicago markets of

$54,098,800	U. S. 3 1/2% Treasury Notes due 1930-32 and
25,000,000	" " 4 1/4% Fourth Liberty Loan bonds
$79,098,800	for a like amount of short-term Governments, the greater portion of which consisted of 3 1/8% certificates maturing June 15, 1928.

December 1927 - Sale of $92,575,000 maturing 4 1/2% Treasury notes to the fiscal agent of the British Government to be used by them in making payment to the United States Government account British Government Debt. About $58,000,000 of these certificates were acquired from foreign correspondents on December 15 for resale to the Agent of the British Government and we purchased from the latter, in exchange, a like amount of 3 1/2% Treasury notes due March 15, 1932.

December 1927 - Sale of $37,560,000 short-term Governments to foreign correspondents to partly replace their holdings of 4 1/2% notes which matured December 15, 1927 against which sales offsetting purchases of other issues of short-term Governments had been made.

December 1927 - Exchange in the market of about $60,000,000 of the 3 1/2% Treasury notes due March 15, 1932 acquired from the fiscal agent of the British Government for a like amount of the shorter-term Governments.

January 1928 - Sale on
January 4 of $22,000,000 3 1/4% certificates of indebtedness due March 15, 1928 to the fiscal agent of the British Government. This sale was replaced by purchase of other issues of short-term Governments in the market and from temporary holdings of the New York reserve bank.

On November 25 the Federal Reserve Bank of Minneapolis, due to its reserve position, sold $5,000,000 of Government securities from its participation in the System Account. These securities were apportioned to the other participating banks and a like amount of bills was sold them by the New York bank from its portfolio.

On December 2 the Federal Reserve Bank of Dallas, due also to its reserve position, sold $5,000,000 of Government securities from their participation in the System Account. These securities were apportioned to the other participating banks, and the Federal Reserve Bank of New York sold to Dallas from its portfolio $5,000,000 bankers acceptances.

On January 5, 1928 the Federal Reserve Bank of Atlanta, due to an anticipated loss in their gold settlement fund, requested that they be temporarily relieved of $3,000,000 Government securities from their participation in the System Account. Due to the fact that this request was received too late in the day to make apportionment, these securities were purchased by the Federal Reserve Bank of New York on January 5 and apportioned to the other participating banks on January 6. The Reserve Bank of Atlanta repurchased these securities on Saturday, January 7.

At the meeting of the Open Market Committee held in Washington on January 12, 1928, the following conclusions were adopted:

1. The object of the policy adopted on November 1 has been accomplished.

2. The Committee program should now work towards somewhat firmer money conditions as far as necessary to check unduly rapid further increases in the volume of credit.

3. In order to accomplish this program the Committee would expect to sell further amounts of Government securities and if necessary, to deal with gold movements in such manner as necessary to carry out the program.

In line with the execution of this program to work toward somewhat firmer money conditions by the sale of Government securities, sales were made from the Open Market Account of $150,000,000 as follows:

During January 1928 -	$123,000,000
" February 1928 -	27,000,000
Total	$150,000,000

These sales accordingly reduced the total holdings in the account from $423,000,000 to - 273,000,000

Other transactions since January 12 which did not affect the amount of total holdings in the Account consisted of

January 1928 - Exchange in the market of	$45,000,000	4 1/4% Third Liberty Loan bonds for a like amount of short-term Government paper. These Third Liberty Loan bonds were sold to satisfy the demand in the market for this issue of bonds to be used in connection with the exchange for new 3 1/2% Treasury notes due December 15, 1932 under the Treasury's exchange offering.
January 1928 - Exchange of	$100,000,000	4 1/4% Third Liberty Loan bonds for a like amount of the 3 1/2% Treasury notes due December 15, 1932 under the Treasury's offering. This exchange was in accordance with the action taken at the Committee meeting held in Washington on January 12. These exchanges were made as opportunity offered.
February 1928 - Exchange in the market of	$ 41,000,000	3% certificates maturing March 15, 1928 for a like amount of the 3 1/8% certificates maturing June 15, 1928 and 3 1/4% certificates maturing December 15, 1928, principally the June maturity.
March 1928 - Exchange with fiscal agent of British Government of	$ 30,000,000	3 1/4% certificates of indebtedness due December 15, 1928 for a like amount of 3% certificates maturing March 15, 1928. The latter issue of certificates together with $4,125,000 of the 3 1/4% certificates maturing March 15 were sold to the Treasury for redemption during the period March 8 to March 14 inclusive, and were replaced in the account by purchase of other issues of short-term Governments.

March 15, 1928 -	Sales to Treasury of	$23,768,500	June 3 1/8% certificates for account of Alien Property Custodian and Mixed Claims in exchange for a like amount of the new 3 1/4% certificates due Dec. 15, 1928 which they had acquired by subscription in exchange for their holdings of March 15 maturities. This exchange was effected in order to accommodate the Treasury with the shortest term Government paper for these Treasury accounts.
March 15, 1928 -	Sales to foreign correspondents of	$105,000,000	short-term Governments, principally 3 1/8% certificates maturing June 15, 1928 in partial replacement of their holdings of March 15 maturities.

These sales on March 15 were replaced in the account by purchase of a like amount of short-term Governments. With a view to stabilizing conditions in the money market over the tax period, delivery of about $85,000,000 of these purchases were deferred until after the 15th. This, together with the sale to New York City banks of a $115,000,000 participation in the special one-day Treasury certificate to cover the overdraft, resulted in call money remaining stable on March 15 and the succeeding dates.

Attached are statements showing:

Exhibit A - Participation of Federal reserve banks in System Special Investment Account Government securities and classification of issues held in the account by maturities as of close of business March 22, 1928.

Exhibit B - Statement showing earning asset holdings of all Federal reserve banks March 14, 1928, as compared with previous week and March 16, 1927; also weekly average of earning assets from December 28, 1927 to March 14, 1928, as compared with corresponding period 1927 and entire year 1927.

Exhibit "A"

STATEMENT SHOWING PARTICIPATION BY FEDERAL RESERVE BANKS IN SYSTEM SPECIAL INVESTMENT ACCOUNT AND CLASSIFICATION OF ISSUES HELD MARCH 22, 1928, IN THE ACCOUNT BY MATURITIES

Boston	$ 21,098,500	Dec. 15, 1928 - 3 1/4% C/I (old)	$ 66,089,000
New York	72,553,800	Dec. 15, 1928 - 3 1/4% " (new)	64,818,500
Philadelphia	19,683,000	June 15, 1928 - 3 1/8% "	2,746,500
Cleveland	22,779,000	March 15, 1929 - 3 3/8% "	28,500,000
Richmond	7,297,500	March 15, 1932 - 3 1/2% T/N	59,175,000
Atlanta	6,414,000	Dec. 15, 1932 - 3 1/2% "	51,940,800
Chicago	42,115,500		
St. Louis	13,914,500		
Minneapolis	10,553,500		
Kansas City	18,541,000		
Dallas	14,825,500		
San Francisco	23,494,000		
Totals	$273,269,800		$273,269,800

EXHIBIT "B"

STATEMENT SHOWING EARNING ASSET HOLDINGS OF FEDERAL RESERVE BANKS MARCH 14, 1928 COMPARED WITH PREVIOUS WEEK AND MARCH 16, 1927: ALSO WEEKLY AVERAGE OF EARNING ASSETS FROM DECEMBER 28, 1927, TO MARCH 14, 1928 AS COMPARED WITH CORRESPONDING PERIOD 1927 AND ENTIRE YEAR 1927.
(000 Omitted)

		Boston	New York	Phila.	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minn.	Kan. City	Dallas	San Fran.	Totals
Bills Discounted	- Mar. 7	$45,738	$124,388	$42,361	$53,620	$24,375	$26,867	$60,957	$24,776	$ 1,591	$ 7,844	$ 3,442	$66,149	$ 482,108
" "	- Mar.14	48,182	111,036	51,362	51,188	27,845	22,814	51,058	25,769	1,868	11,062	3,754	66,358	472,296
Net Change		2,444+	13,352-	9,001+	2,432-	3,470+	4,053-	9,899-	993+	277+	3,218+	312+	209+	9,812-
Bills Purchased	- Mar. 7	42,183	93,240	32,306	30,154	14,726	10,247	41,508	10,762	10,131	12,290	14,106	26,842	338,495
" "	- Mar.14	46,953	100,815	30,596	28,691	14,929	9,803	39,914	9,671	10,648	12,098	13,677	25,531	343,326
Net Change		4,770+	7,565+	1,710-	1,463-	203+	444-	1,594-	1,091-	517+	192-	429-	1,311-	4,821+
Government Securities	- Mar. 7	21,799	75,918	34,863	49,739	8,448	9,926	62,995	31,919	18,135	30,769	25,017	33,184	402,712
" "	- Mar.14	21,509	75,923	34,593	49,427	8,349	9,770	63,109	31,729	17,990	31,014	24,613	32,861	400,887
Net Change		290-	5+	270-	312-	99-	156-	114+	190-	145-	245+	404-	323-	1,825-
Total Earning Assets	- Mar. 7	109,720	293,546	109,530	133,513	47,549	47,040	165,460	67,457	30,857	50,903	42,565	126,175	1,224,315
" " "	- Mar.14	116,644	287,774	116,551	129,306	51,123	42,387	154,081	67,169	31,506	54,174	42,044	124,750	1,217,509
Net Change		6,924+	5,772-	7,021+	4,207-	3,574+	4,653-	11,379-	288-	649+	3,271+	521-	1,425-	6,806-
Comparison of Weekly Average of Earning Assets														
Dec. 28, 1927 to Mar. 14, 1928		104,244	310,760	119,495	132,697	62,808	46,855	176,967	65,491	36,899	56,368	48,137	110,337	1,271,058
Same period 1927		78,739	245,276	80,057	114,464	40,733	46,910	169,132	47,988	31,598	53,283	40,615	106,195	1,054,990
Entire year 1927		79,546	282,822	88,085	111,895	55,679	49,115	155,812	59,695	35,537	55,562	46,416	100,415	1,120,579
Net Change from same period 1927		25,505+	65,484+	39,438+	18,233+	22,075+	55-	7,835+	17,503+	5,301+	3,085+	7,522+	4,142+	216,068+
" " " entire year 1927		24,698+	27,938+	31,410+	20,802+	7,129+	2,260-	21,155+	5,796+	1,362+	806+	1,721+	9,922+	150,479+
Comparison of Earning Assets														
March 14, 1928		116,644	287,774	116,551	129,306	51,123	42,387	154,081	67,169	31,506	54,174	42,044	124,750	1,217,509
" 16, 1927		69,909	263,110	66,810	104,351	36,205	44,087	167,353	55,860	32,888	51,554	35,673	98,932	1,026,732
Net Change		46,735+	24,664+	49,741+	24,955+	14,918+	1,700-	13,272-	11,309+	1,382-	2,620+	6,371+	25,818+	190,777+

SUMMARY FOR SYSTEM

Bills Discounted for week	$ 9,812-
Bills Purchased for week	4,821+
Government Securities for week	1,825-
Total Earning Assets for week	6,806-
Comparison of Weekly Average of Earning Assets Dec. 28, 1927 to Mar. 14, 1928 with same period 1927	216,068+
Comparison of Weekly Average of Earning Assets Dec. 28, 1927 to Mar. 14, 1928 with entire year 1927	150,479+
Comparison of Earning Assets March 14, 1928 with March 16, 1927	190,777+

333.-6-2

March 24, 1928.

Memorandum to the Open Market Investment Committee

At its last meeting on January 12, 1928, the committee recommended a System open market policy which should "work toward somewhat firmer money conditions as far as necessary to check unduly rapid further increases in the volume of credit." In accordance with this policy net gold exports, totaling $68,000,000, (exclusive of exports of earmarked gold) since that time have not been offset by purchases of securities, and sales have been made from the open market portfolio amounting to $150,000,000, and the portfolio has been reduced from $423,000,000 to $273,000,000. Accompanying these sales of securities the discount rates of all the Reserve Banks were increased from 3 1/2 to 4 per cent.

Partly as a consequence of these actions, money rates have risen somewhat, as indicated in the following table:

	January 12, 1928	March 23, 1928
Call money	4	4 1/2
Time money, 90-day	4 1/4	4 5/8
Commercial paper	3 3/4 - 4	4 - 4 1/4
Bills 90-day	3 3/8	3 1/2

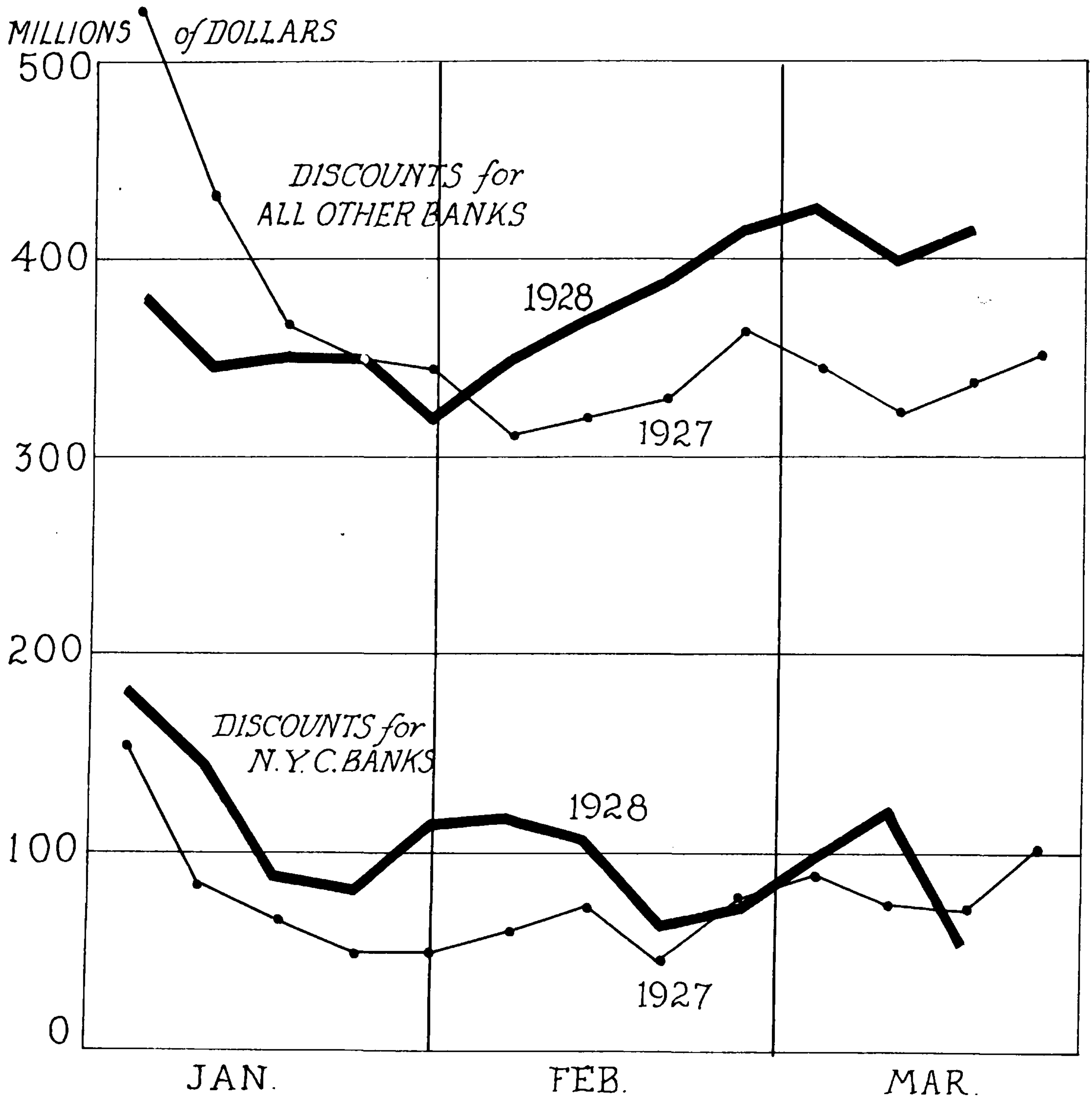
The total volume of member bank credit decreased during January and the first half of February at a somewhat more rapid rate than the usual seasonal decrease. The decline was largely in loans on stocks and bonds, and commercial loans increased. There has not been sufficient liquidation of credit to release any appreciable amount of reserve funds and total bills and securities of the Reserve Banks are currently about 200 million larger than last year. In the past two weeks, accompanying a very active stock market, brokers loans have begun to increase again and with them the total volume of credit.

The policy adopted in January was thus effective in preventing further increases in the volume of credit, until the past two weeks. A partial explanation for the diminishing effectiveness of the policies adopted may be seen by observing the changes in bills discounted of member banks in New York City and member banks in other districts. As sales of securities were made in January the borrowings of member banks in New York City were increased, until they reached a point well above 100 million. From early in February, however, borrowings in New York City showed something of a downward tendency, accompanying transfers of funds from the interior and increases in the discounts for member banks outside of New York City. These figures are given in the attached diagram and table. They raise the question whether the amount of indebtedness of member banks in New York City is now sufficient to prevent further increases in the use of credit, particularly for speculation.

Condition of Business

[redacted]

In [redacted] recent weeks the available evidence indicates a continued tendency toward business recovery, and this improvement has gone far enough so that Federal Reserve policy may be considered more independently of the condition of business than for some weeks past. "


MILLIONS of DOLLARS
500
400
300
200
100
0
DISCOUNTS for ALL OTHER BANKS
1928
1927
DISCOUNTS for N.Y.C. BANKS
1928
1927
JAN.
FEB.
MAR.

Bills discounted by Federal Reserve Banks

(Monthly Averages of daily figures, in millions of dollars)

	1927	1928
Boston		
Jan.	33	24
Feb.	29	45
Mar.	33	47
New York		
Jan.	118	153
Feb.	91	119
Mar.	109	130
Philadelphia		
Jan.	44	45
Feb.	36	53
Mar.	37	49
Cleveland		
Jan.	62	51
Feb.	39	51
Mar.	30	56
Richmond		
Jan.	23	27
Feb.	23	27
Mar.	23	28
Atlanta		
Jan.	34	29
Feb.	27	28
Mar.	31	26

	1927	1928
Chicago		
Jan.	90	59
Feb.	79	51
Mar.	74	59
St. Louis		
Jan.	19	17
Feb.	15	24
Mar.	14	26
Minneapolis		
Jan.	4	4
Feb.	4	4
Mar.	4	3
Kansas City		
Jan.	10	13
Feb.	9	11
Mar.	8	10
Dallas		
Jan.	5	4
Feb.	3	4
Mar.	3	4
San Francisco		
Jan.	38	41
Feb.	39	52
Mar.	48	69

Total	1927	1928
Jan.	481	465
Feb.	393	471
Mar.	414	506

March figures are for the 1st to the 20th, inclusive.

333-6-2

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date January 18, 1928.

To All members of the Board.

Subject:

From Mr. Eddy.

2—8495 GPO

At the meeting this morning, there was ordered circulated the attached letter dated January 16th from the Secretary of the Open Market Investment Committee, transmitting copy of the minutes of the meeting of the Committee held in Washington on January 12th.

1/12/28
filed 333.-6-2
Final minutes

Governor Young
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. McIntosh absent

Please return to Secretary's Office.

333.-6-2

Mr. McClelland

January 17, 1928

Dear Mr. Matteson:

I acknowledge receipt of and thank you for your letter of the 14th instant, addressed to Governor Young, enclosing for the confidential information of the Board copy of the minutes of the meeting of the Open Market Investment Committee held in Washington, January 12, 1928.

1/12/28 filed 333.-6-2 Final Minutes

Very truly yours,

Walter L. Eddy,
Secretary

Mr. W.B. Matteson, Secretary,
Open Market Investment Committee,
c/o Federal Reserve Bank,
New York, N. Y.

333.-6-2

FEDERAL RESERVE BANK
OF NEW YORK

CONFIDENTIAL January 16, 1928

Dear Governor Young:

I am enclosing herewith, for your confidential information, a copy of the minutes of the meeting of the Open Market Investment Committee held in Washington, January 12, 1928.

1-12-28 filed 333.-6-2 7 incl minutes

Very truly yours,

W. B. Matteson

W. B. MATTESON
Secretary, Open Market
Investment Committee

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

Encls. (2)

Noted & Ordered Circulated

BOARD MEETING
JAN 18 1928

see ans 1/17/28

333.-6.

FEDERAL RESERVE BANK
OF NEW YORK

This is your personal copy
RAY

P E R S O N A L   January 16, 1928

Dear Governor Young:

I am enclosing, for your files, a copy of the minutes/ 1-12-28 filed 333.-6-2 final minutes of the meeting of the Open Market Investment Committee held in Washington January 12, 1928.

Very truly yours,

W. B. Matteson

W. B. MATTESON
Secretary, Open Market
Investment Committee

R. A. Y.
JAN 17 1928

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

Encls. (2)

333-6-2
1/12/28

11-2-27

The Committee has considered the memorandum submitted by the Chairman and has reviewed the program adopted by the committee on November 1, 1927 and approved by the Federal Reserve Board. Thereupon, the following conclusions were adopted:

1. The object of the policy adopted on November 1 has been accomplished.

2. The Committee program should now work towards somewhat firmer money conditions as far as necessary to check unduly rapid further increases in the volume of credit.

3. In order to accomplish this program the committee would expect to sell further amounts of Government securities and if necessary to deal with gold movements in such manner as necessary to carry out the program.

As outlined in the program of November 1, the committee would expect to be charged with the execution of this program for the account of those reserve banks which approve and participate and would hope this program might guide the committee for the present, unless a change of conditions makes further review desirable.

See Minutes
AT BOARD MEETING
JAN 12 1928

The Committee has considered the memorandum submitted by the Chairman and has reviewed the program adopted by the committee on November 1, 1927 and approved by the Federal Reserve Board. Thereupon, the following conclusions were adopted:

1. The object of the policy adopted on November 1 has been accomplished.

2. The Committee program should now work towards somewhat firmer money conditions as far as necessary to check unduly rapid further increases in the volume of credit.

3. In order to accomplish this program the committee would expect to sell further amounts of Government securities and if necessary to deal with gold movements in such manner as necessary to carry out the program.

As outlined in the program of November 1, ~~The committee would expect~~ to be charged with the execution of this program for the account of those reserve banks which approve and participate and would hope this program might guide the committee for the present, unless a change of conditions makes further review desirable.

333.-6-2

MEMORANDUM FOR THE OPEN MARKET INVESTMENT COMMITTEE

January 12, 1928

The major features of the current credit situation as they relate to Federal Reserve policy may be summarized as follows:

VOLUME OF CREDIT

Over the past 12 months the growth of bank credit in the United States has been more rapid than in any year since 1924, and more rapid than is ordinarily required by the year to year growth in the country's trade. It appears to have been much more rapid than was required by the growth of trade this year in view of recessions in many branches of business.

As far as may be judged from the available statistics the country's bank credit expanded about 8 per cent in 1927 compared with a normal growth of possibly 6 per cent.

USE OF CREDIT

The amount of commercial loans as indicated by "all other loans" of reporting member banks, is now no larger than a year ago. The increase in total loans and investments of these banks was divided almost equally between loans on stocks and bonds and bank investments. Of the increase in investments more than half has been in Government securities, reflecting in part the Treasury refunding program which retired three billion dollars of widely distributed bonds largely by issuing lower yield short term issues which were carried more largely by banks.

In interpreting these member bank figures two other considerations should be borne in mind.

1. "All other loans" are not a complete measure of business use of credit. Much of the funds recorded as investments and loans on stocks and bonds find their way into business

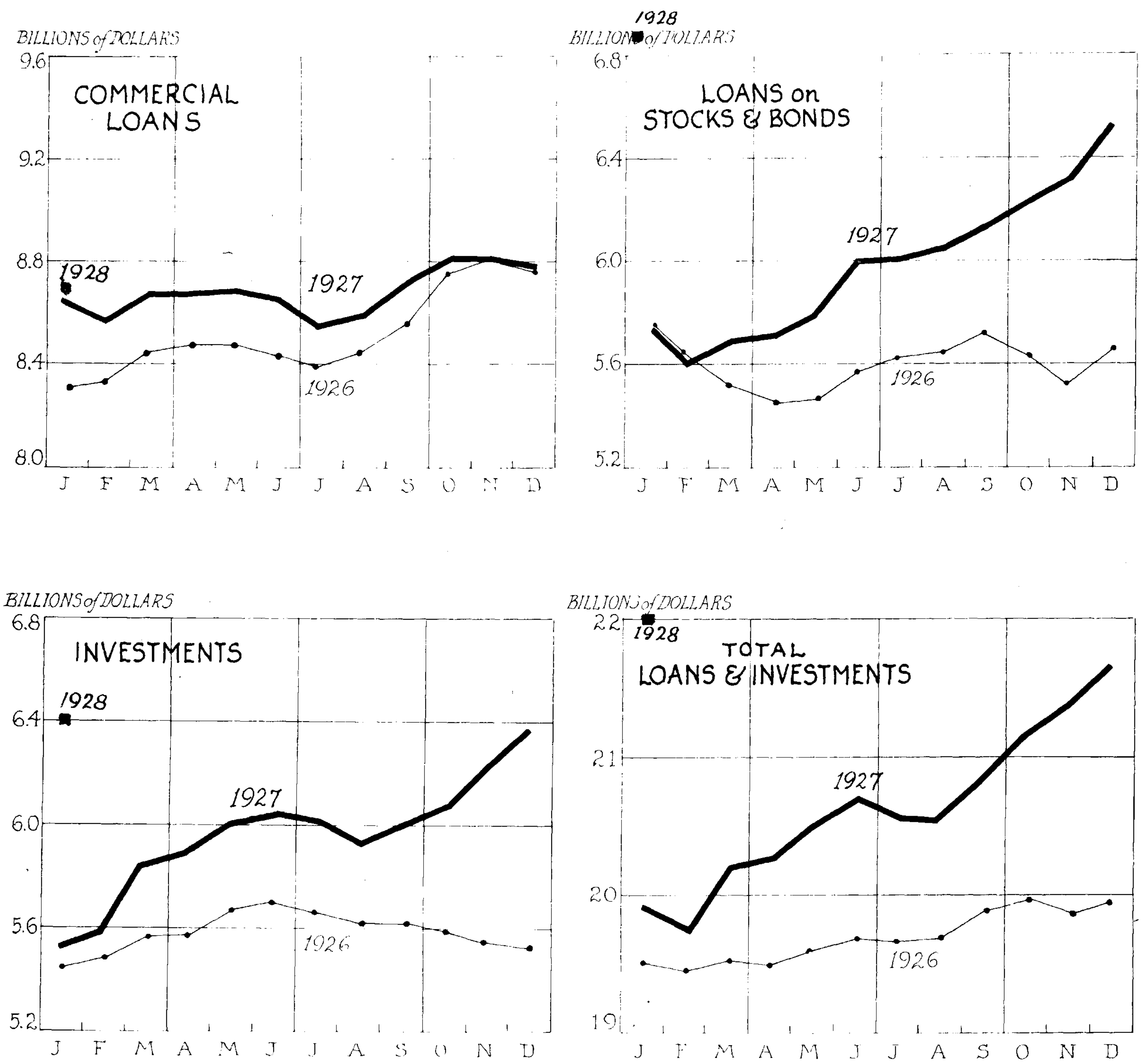
use. Through new financing for example, this year about 6 billion dollars has gone into construction of building, roads, bridges, plant equipment, etc. Business credit requirements of these sorts continue to grow even in periods of recession and these uses of credit are a factor in business recoveries from recessions. In the banking figures some of this appears in investments and loans on stocks and bonds.

2. With our huge time deposits some considerable increments of bank credit are due to accumulation of interest. The country has perhaps 26 billions of time and savings deposits. Annual 4 per cent interest on this sum is over one billion dollars.

But nearly half of the increase in deposits this year has been in demand rather than time deposits, and much of the increase in bank credit has been absorbed in increased prices of securities rather than in business enterprise. The rate of increase in credit has been clearly more rapid than can be continued without leading to abnormalities of value, the eventual readjustment of which might involve a severe strain on the country's business.

The changes in the loans and investments of reporting member banks are shown in the following diagram.

3

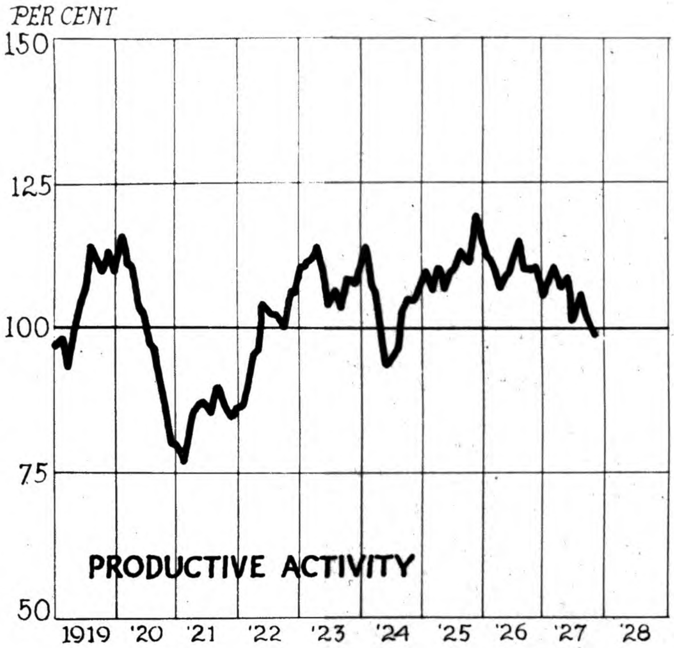


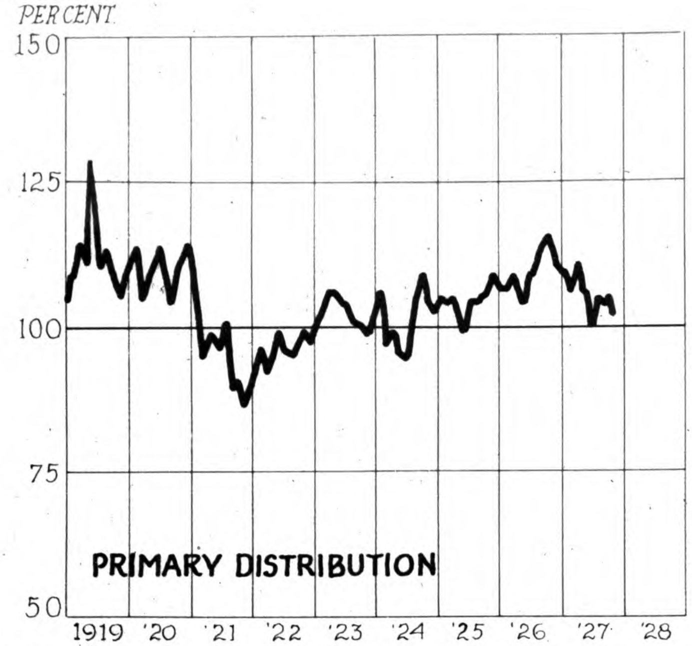
Loans and Investments of All Weekly Reporting Banks

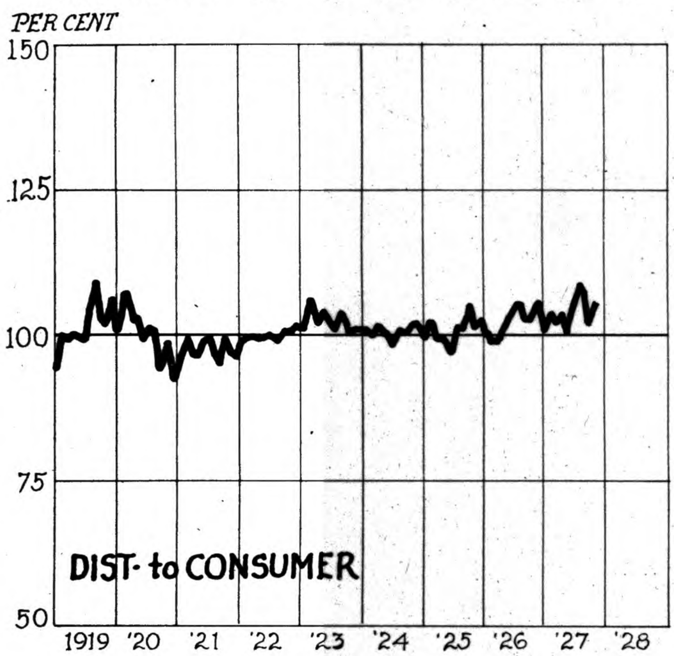
CONDITION OF BUSINESS

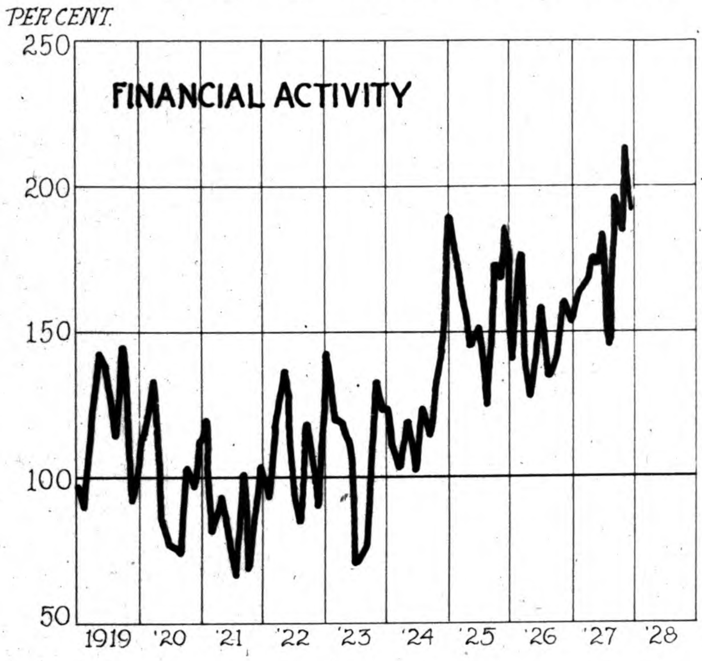
Recent changes in business activity are summarized in the following diagram which gives the components of the volume of trade index compiled by the New York Bank. In each case the figures are shown as percentages of the trend of growth of past years. The principal recessions have been in productive activity and wholesale (primary) distribution. Retail distribution has been better sustained and financial activity which includes sales of stocks, new financing, and trading in cotton and grain futures, has been going forward at a tremendous pace. This very high rate of financial activity has accounted for the fact that debits to individual accounts have been at such high levels.

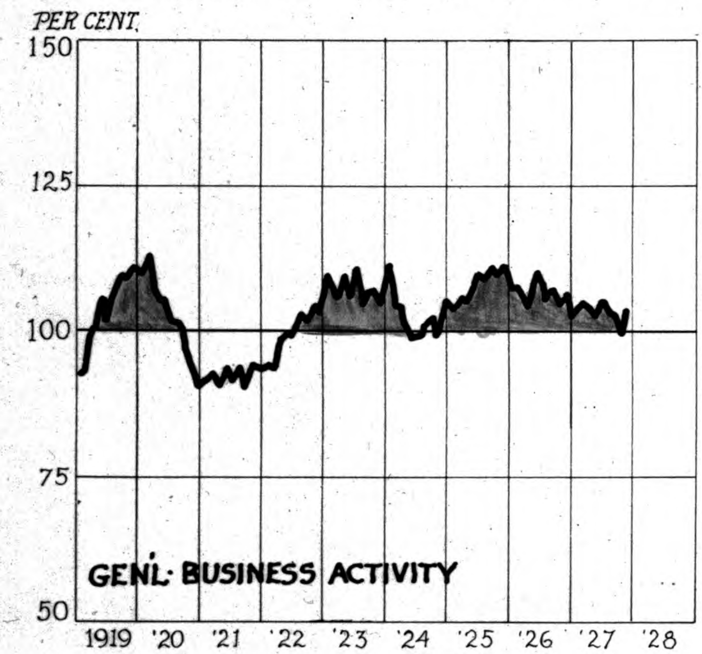
While the figures show a distinct recession in business they do not show anything approaching a depression. In none of the groups are the figures appreciably below what may be estimated as normal. While industrial employment has decreased 5 or 6 per cent since a year ago there are no indications of serious unemployment.











INDEXES of PRODUCTION, DISTRIBUTION, & FINANCIAL ACTIVITY. (In % of computed trend)
F.R.B. of N.Y.

It is not easy to explain the recent recessions in business. There has been no general overproduction nor any credit stringency. New financing which reflects new enterprise has gone on in ever increasing amounts. It is likely that it is the effect of the accumulative action of a number of causes which include the Ford cessation of new car production, the soft coal strike, the floods, the collapse of the Florida boom, the let-down in new building and plant construction, conservation of railroads in ordering new equipment.

If these are the causes of recession they are mostly temporary and the present almost unanimous opinion that business is likely to improve as the year advances appears to have some justification.

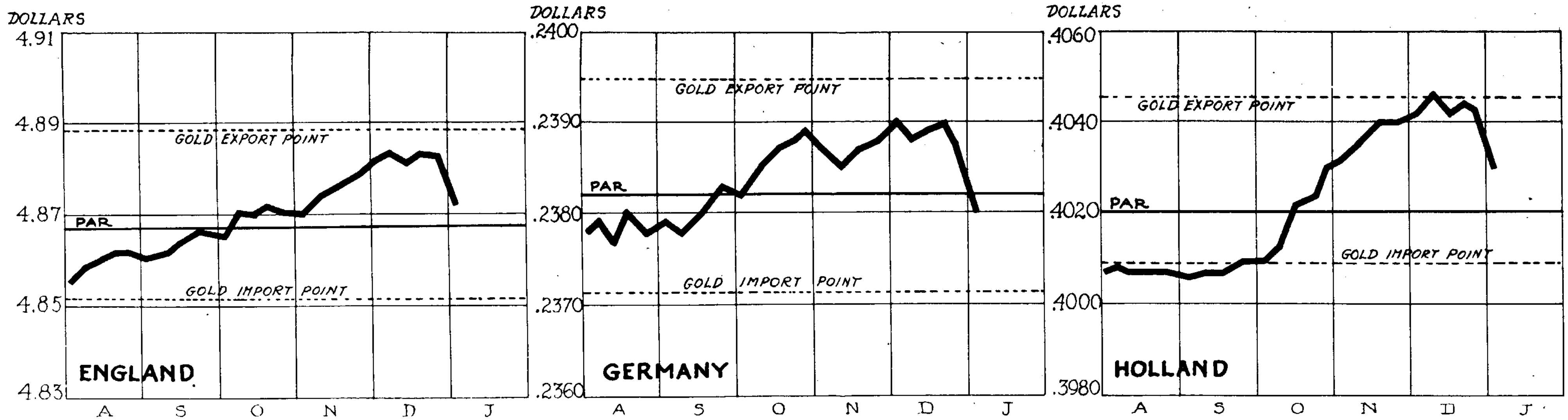
As to the effect of changes in money conditions upon business recovery there are two phases of the problem, the real supply of funds, and the psychological reaction. Under present conditions banks are finding difficulty in employing their funds safely and profitably. This would still be true even if credit were increasing less rapidly and money were somewhat firmer; business could still obtain all the credit necessary at reasonable rates. As to the psychological effect of any action the Reserve System may take in the direction of firmer money there is perhaps some question since business is now probably very sensitive to changes in the credit picture. The question for Federal Reserve policy is how the present credit expansion can best be controlled if possible without adversely affecting business.

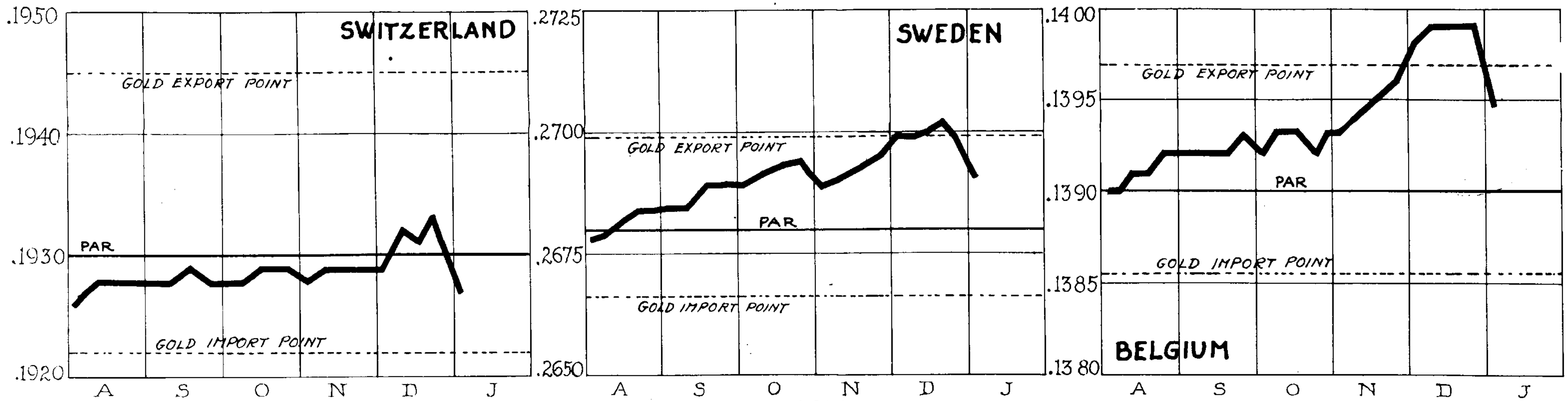
FOREIGN EXCHANGES AND GOLD MOVEMENT

When Federal Reserve discount rates were reduced last August and September, money conditions abroad were an important consideration. Sterling and other European exchanges were weak and stringent money conditions abroad, with increasing discount rates and consequent pressure on world commodity markets which might logically be followed by unemployment and declining purchasing power for our own goods, appeared inevitable unless money were easier in this country.

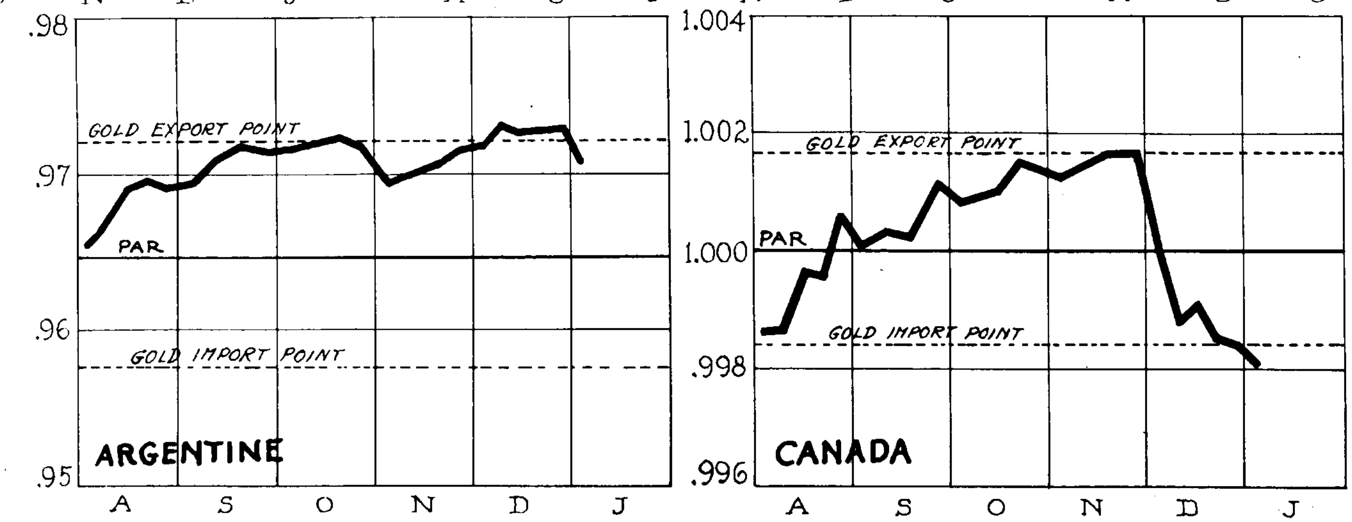
Now the situation is quite changed. Much that was hoped to be accomplished by our rate action has been accomplished. Most of the European exchanges are above par and European countries have both taken gold from us and increased their holdings of dollars. Since the first of the year the exchanges have declined as bills drawn in dollars have come due and as short covering has become less of an influence. Firmer money here would put more pressure on the exchanges and might possibly lead to some rate advances abroad, but European money markets are now more firmly entrenched and much more able to take care of themselves.

The gold outflow appears to be slackening as foreign exchanges have weakened and firmer money here would perhaps operate as a further check except for central bank transactions or for other unusual transactions which may be made regardless of the exchange position. The recent gold exports, however, have not only improved the monetary position of a number of countries but have also had good psychological effect. As a result, consideration of Federal Reserve policy at this time can properly be much more independent of the European situation than was the case last summer.





8



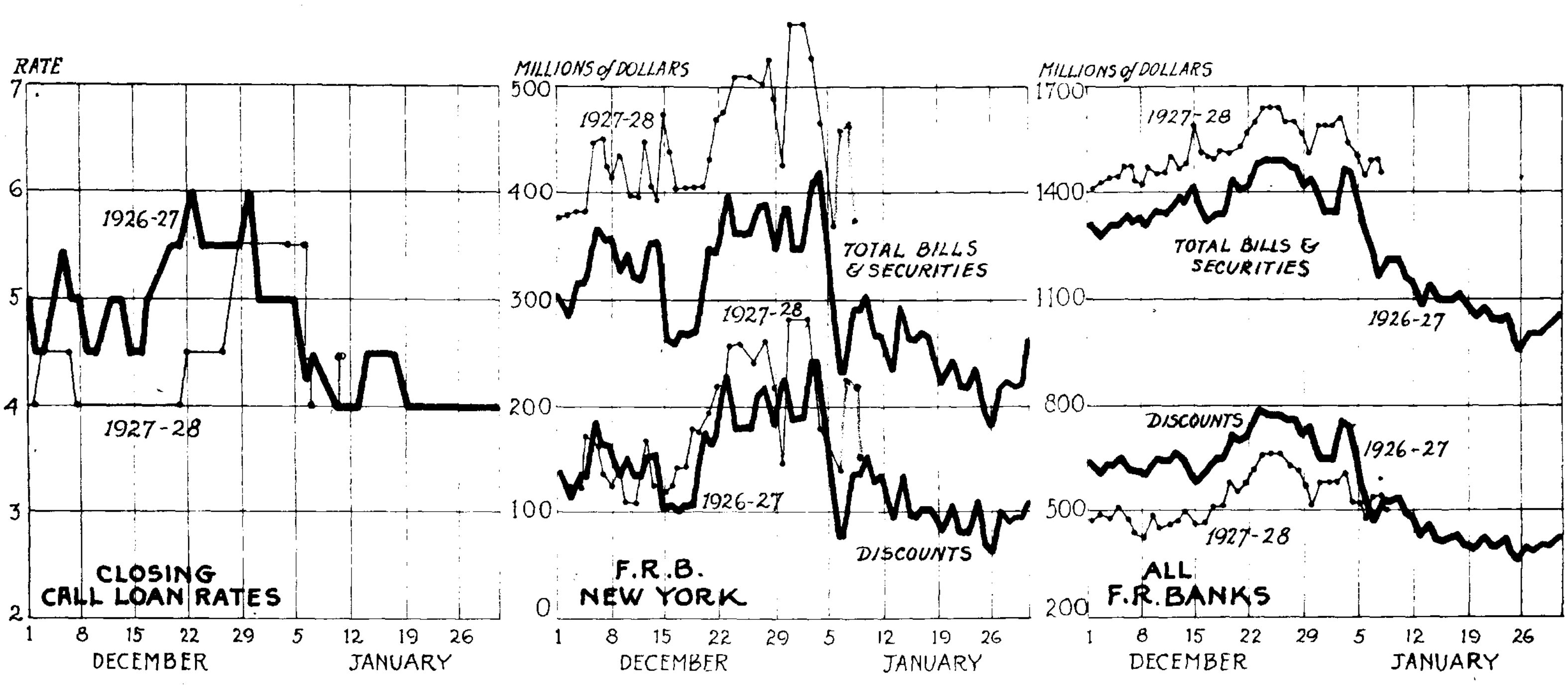
Foreign Exchange Rates at New York.

PRESENT POSITION OF THE MONEY MARKET

Between September 1 and January 10 net gold exports and earmarkings have taken approximately 230 million dollars out of the market. Of this only 45 million has been offset by purchases of securities thus leaving a net loss to the money market of about 185 million. During this week we have sold approximately 30 million of Government securities and anticipate selling an additional 15 millions within the next few days. In addition, the required reserves of member banks have increased about 100 million dollars. Thus since early autumn, taking all these changes into consideration, the requirements for reserve money for which banks or the market feel responsibility have increased 330 million dollars. The full weight of this borrowing has only just begun to fall on the market because of the extended Treasury overdraft from November 15 to December 20 and the distortion of the picture by year-end transactions.

At the last report all member banks owed the Reserve Banks about 500 million dollars and banks in New York City 180 million, and in addition bill and security dealers have secured funds under sales contracts totaling 76 million. The experience of the past shows that this amount of burden on the banks and market will ordinarily keep the call money rate from 1/2 to 1 1/2 per cent above the discount rate with other rates in correspondence. Thus the conditions are now present for considerably firmer money conditions than in the autumn. The adjustment of the market to these conditions has been a little slow because of general expectancy of easy money after the turn of the year, but the adjustment now appears to be taking place.

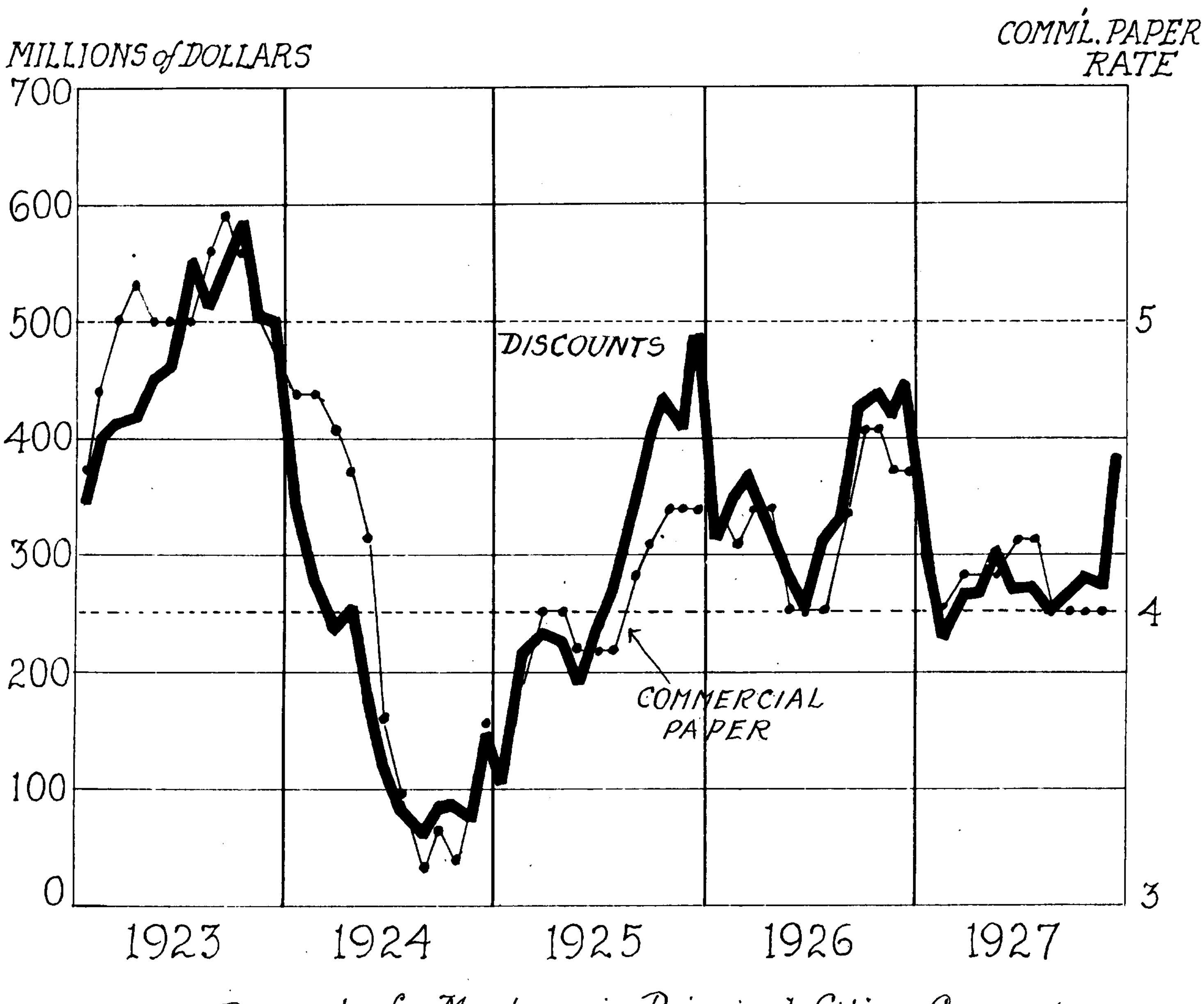
The accompanying charts show recent money market tendencies compared with a year ago and the relationship which has existed between member bank borrowing and interest rates.



MONEY RATES & USE of RESERVE BANK CREDIT
Year ends of 1926-27 & 1927-28.

R. 1317.1

11



Discounts for Members in Principal Cities Compared with Commercial Paper Rates

SUMMARY

The foregoing may be summarized as follows:

1. In recent months the volume of credit has been increasing more rapidly than appears to have been required for the needs of business.

2. The increase seems to have flowed largely into the channels of investment and speculation, though business has probably benefited indirectly to some extent.

3. Business has been receding due probably to causes which are temporary. Fundamentals are generally sound.

4. Even with somewhat firmer money conditions, business is likely to get all the funds required, but business psychology may be sensitive to abrupt changes in money conditions.

5. European money markets are now in a position largely to take care of themselves and consideration of Federal Reserve policy may well be more independent of them than was the case last summer.

6. Conditions now seem to be present for substantially firmer money conditions than last autumn, though the market has been slow in adjusting to these conditions.

TELEGRAM

333-6-2

RECEIVED
JAN 10 1928
THE GOVERNOR

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

218bfa

R. A. Y.
JAN 10 1928

NewYork NY 458p Jan 9 1928

Mr Young,

Federal Reserve Board Washn

1/7/28 1/7/28

Referring to my telegram of saturday and your talk with Mr McGarrah this afternoon, I am now arranging to have the open market investment committee meet in Washington on thursday January 12.

Case

507pm

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

333-6-2

RECEIVED
JAN 10 1928
THE GOVERNOR

218bfa

NewYork NY 458p Jan 9 1928

R. A. Y.
JAN 10 1928

Mr Young,

Federal Reserve Board Washn

1/7/28 1/7/28

Referring to my telegram of saturday and your talk with mr McGarrah this afternoon, I am now arranging to have the open market investment committee meet in Washington on thursday January 12.

Case

507pm

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

333-6

RECEIVED
JAN 7 - 1928
OFFICE OF THE GOVERNOR

RECEIVED AT WASHINGTON, D. C.,

R. A. Y.
JAN 10 1928

135bs

NewYork 1P Jan 7 1928

Young

Washington

Confirming my telephone conversation with you today, A meeting of the Open Market Investment Committee has been called for Thursday, January 12, ten A.M. in this bank. I understand that you and as many of your associates as possible will attend

Case

118P

see telegram 1/9/28
see letter 12/3/27

GOVERNMENT PRINTING OFFICE 2—11901

333.-62

Mr. Eddy

December 3, 1927

filed 333.-61
see 333.3

Dear Mr. Case:

Under letter date of December 2, Governor Strong advised that he would be away from the bank and that he had asked you to arrange, during his absence, for a meeting of the Open Market Investment Committee.

When you determine upon a definite date, I would appreciate it very much if you would let me know.

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.

see telegram 1/7/28

RECEIVED NOV 10 1927 OFFICE OF THE GOVERNOR

333.-f-2

FEDERAL RESERVE BANK

OF NEW YORK

November 9, 1927.

FOR SPECIAL CIRCULATION 11/10/27

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

Gov. Young RAY Mr. Hamlin CSH Mr. James GRJ Mr. McIntosh JWM
Mr. Platt EP Mr. Miller AM Mr. Cunningham EHC

CONFIDENTIAL

Dear Governor Young:

I am enclosing herewith for your confidential information
See 11-1-27 + 11-2-27 filed 333.-f-2 Final Minutes
the minutes of the meetings held by the Open Market Investment Committee in Washington on November 1 and 2. The supplementary confidential memoranda *11-2-27* referred to in the minutes were handed to you in Washington so that they are not attached to the enclosed minutes.

Very truly yours,

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

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

Enc.

333-6

November 2, 1927

Dear Governor Strong:

At the meeting of the Federal Reserve Board held today following the conference with the members of your Committee, during which the report of the committee dated November 1, 1927 was submitted to the Board and discussed in detail, it was voted by the Board that approval be given to the policy governing open market operations as recommended by your committee in its report referred to.

Very truly yours,

R. A. Young,
Governor

Mr. Benj. Strong, Chairman,
Open Market Investment Committee.

REPORT OF THE SL ÆTA OF THE OPEN MARKET INVEST1 ЛT MITTEE
TO THE GOVERNORS' CONFERENCE, NOVEMBER 2, 1927

333.-6-2
11/2/27

The holdings of Government securities in the Special Investment Account at the time of the last Governors' Conference held in Washington, during the week commencing May 9, 1927, amounted to approximately $136,000,000. The holdings in the account since last May have been increased to $375,000,000 by the following purchases:

May & June	To offset earmarked gold for account of foreign correspondents	100,000,000
June & July	Additional purchases made under authority given the Committee at Governors' Conference in May (for purchases not to exceed $100,000,000) which authority terminated on August 1, 1927	29,000,000
July & Aug.	Additional purchases pursuant to action taken at a meeting of the Open Market Investment Committee held in Washington on July 27, 1927	50,000,000
Aug. & Sept.	To offset the sale in this market of the System's sterling balances	60,000,000
	Total holdings	$375,000,000

There have been various other changes which have not affected the total holdings in the account (with the exception of purchases made in replacement of June and September 15 maturities which only temporarily changed the total holdings), the principal transactions being:

June 1927	Purchases in replacement of June 15 maturities for System and Foreign Accounts	$115,000,000
June 1927	Exchange of Second 4 1/4% Liberty Loan bonds for new 3 3/8% Treasury bonds due 1943/47 pursuant to terms of Treasury offering. These Treasury bonds were subsequently sold at a profit in the market in August and a like amount of 3 1/8% certificates due September 15, 1927 were acquired.	20,000,000

July 1927	Exchange with other Federal reserve banks whereby we purchased from their holdings outside of System Account, Treasury certificates and notes maturing September and December 15, 1927, and sold them a like amount of Third 4 1/4% Liberty Loan bonds (approximately)	$20,000,000
July & Aug.	Exchange with a foreign correspondent whereby we purchased from them 3 1/4% certificates maturing September 15, 1927 and sold to them a like amount of 3 1/4% certificates maturing March 15, 1928. In August, the September 15 certificates were exchanged in the market for a like amount of Third 4 1/4s.	30,000,000
September	Purchases made in replacement of September 15 maturities for System and Foreign Accounts. The Open Market Investment Committee approved, including in these purchases, a block of $25,000,000 Fourth 4 1/4s against which authorization a total of $22,500,000 of this issue of bonds was purchased.	155,000,000
September	Exchange of Second 4 1/4% Liberty Loan bonds for like amount of new Treasury 3 1/2% notes due September 15, 1930/32 pursuant to terms of Treasury offering	24,100,000

On June 3 the Federal Reserve Bank of St. Louis asked to be relieved temporarily of $8,000,000 of their participation of Government securities held in the System Account. This amount of Governments was sold from their participation on that date and allotted to all the other participating banks, and on June 9 the Federal Reserve Bank of St. Louis repurchased these securities. On June 29 and July 1 the Federal Reserve Bank of St. Louis again asked to be relieved temporarily of $10,000,000 aggregate amount of their participation of Government securities held in the System Account. $5,000,000 of these securities were allotted to the other participating banks and the remaining $5,000,000 was apportioned to the Federal Reserve Bank of Richmond (having in mind their urgent need for earnings to cover current expenses, etc.) On July 13 the Reserve Bank of St. Louis advised that they could take back the $10,000,000 of Government securities which they temporarily sold and accordingly a sale was made to them on that day of the $5,000,000 which had been allotted to the other participating banks and $5,000,000 from New York's participation in the System Account to replace the $5,000,000 which had been sold to Richmond.

Due to their low reserve position, the Federal Reserve Bank of Richmond requested on October 17 and 19 that they be temporarily relieved of $5,000,000 and $10,000,000, respectively, of their participation of Government securities held in the System Special Investment Account. This sale was accordingly made and the securities were allotted to the other participating banks on the prevailing allotment ratios.

During the first half of the current year System purchases of bankers acceptances and new purchases of Government securities were apportioned to reserve banks on percentages based on each bank's expenses, dividends and charge-offs. With the approval of all the banks, new ratios were put into effect on July 8 based on each bank's earning requirements for the balance of the year. These ratios were again adjusted on September 1, September 19 and October 13, and further adjustments on the same basis will be made from now until the end of the year if the figures submitted by the banks indicate that further changes are necessary.

On September 21 the Federal Reserve Bank of Richmond requested that we discontinue for the present allotting them their share of any new purchases of Government securities. They further advised that they wished to continue their participation in allotments of bankers acceptances and replacement purchases of Government securities.

Attached are statements showing:

Exhibit A - Actual net earnings of all Federal reserve banks for the first nine months of the year 1927 and estimated net earnings for last three months of year 1927, and estimated amount of net earnings or net deficit at end of year.

Exhibit B - Participation of Federal reserve banks in System Special Investment Account Government securities and classification of issues held in the account by maturities.

Exhibit C - Purchases of bankers acceptances since the beginning of the year and amount each bank has received in excess or short of its pro rata share.

Exhibit D - Earning asset holdings of Federal reserve banks October 19, 1927 as compared with previous week, also weekly average from December 29, 1926 to October 19, 1927 as compared with corresponding period of 1926.

EXHIBIT "A"

STATEMENT SHOWING ACTUAL NET EARNINGS OF ALL FEDERAL RESERVE BANKS FOR THE FIRST NINE MONTHS OF THE YEAR 1927 AND ESTIMATED NET EARNINGS FOR LAST THREE MONTHS OF YEAR 1927, AND ESTIMATED AMOUNT OF NET EARNINGS OR NET DEFICIT AT END OF YEAR

	Actual Net Earnings in Excess of Expenses and Dividends, but Before Charge-offs, 9 Months Ended Sept. 30/27	Estimated Net Earnings in Excess of Expenses and Dividends, but Before Charge-offs, for Balance of Year 1927	Estimated Charge-offs for Year 1927	Estimated Net Earnings After All Charge-offs Available for Surplus and Franchise Tax for Year 1927
Boston	$ 138,000	$ 143,000	$ 172,000	$ 109,000
New York	842,000	397,000	475,000	764,000
Philadelphia	175,000	3,000*	78,000	94,000
Cleveland	474,000	178,000	285,000	367,000
Richmond	39,000	124,000	147,000	16,000
Atlanta	406,000	139,000	135,000	410,000
Chicago	647,000	346,000	697,000	296,000
St. Louis	435,000	130,000	317,000	248,000
Minneapolis	89,000	2,000	102,000	11,000*
Kansas City	239,000	82,000	166,000	155,000
Dallas	82,000	8,000	41,000	49,000
San Francisco	629,000	60,000	140,000	549,000
Totals	$4,195,000	$1,606,000	$2,755,000	$3,046,000

*Deficit

EXHIBIT "B"

STATEMENT SHOWING PARTICIPATION BY FEDERAL RESERVE BANKS IN SYSTEM SPECIAL INVESTMENT ACCOUNT AND CLASSIFICATION OF ISSUES HELD OCTOBER 19, 1927 IN THE ACCOUNT BY MATURITIES

Boston	$ 25,853,500	Dec. 15, 1927 - 4 1/2% Treas. Notes	$ 19,327,500
New York	96,994,800	March 15, 1928 - 3 1/4% Cert. of Ind.	60,283,500
Philadelphia	22,987,500	March 15, 1928 - 3% " " "	48,596,000
Cleveland	31,102,500	Sept. 15, 1928 - 4 1/4% 3rd L/L bonds	145,049,000
Richmond	11,214,000	March 15, 1932 - 3 1/2% Treas. Notes	60,889,800
Atlanta	9,860,000	Sept. 15, 1932 - 3 1/2% Treas. Notes	18,244,000
Chicago	53,979,500	Oct. 15, 1938 - 4 1/4% 4th L/L bonds	22,500,000
St. Louis	20,280,000		
Minneapolis	16,672,000		
Kansas City	26,019,000		
Dallas	23,821,500		
San Francisco	36,105,500		
Totals	$374,889,800		$374,889,800

EXHIBIT "C"

PURCHASES OF BANKERS ACCEPTANCES SINCE THE BEGINNING OF THE YEAR, AND AMOUNT EACH BANK NOW HOLDS IN EXCESS OR SHORT OF ITS PRO RATA SHARE UNDER THE APPORTIONMENT PLAN PUT INTO EFFECT IN THE EARLY PART OF THE YEAR AND REVISED ON JULY 8 SEPTEMBER 1, SEPTEMBER 19 AND OCTOBER 13

	Bills Acquired	Bills Entitled to Acquire	Bills Over Pro Rata Share	Bills Short Pro Rata Share
Boston	$ 95,808,000	$ 93,456,000	$2,352,000	0
New York	309,294,000	309,832,000	0	538,000
Philadelphia	91,519,000	94,737,000	0	3,218,000
Cleveland	114,105,000	114,023,000	82,000	0
Richmond	96,457,000	97,938,000	0	1,481,000
Atlanta	49,648,000	49,081,000	567,000	0
Chicago	168,174,000	167,421,000	753,000	0
St. Louis	61,230,000	61,600,000	0	370,000
Minneapolis	52,016,000	53,728,000	0	1,712,000
Kansas City	69,755,000	70,434,000	0	679,000
Dallas	52,412,000	53,487,000	0	1,075,000
San Francisco	81,060,000	75,741,000	5,319,000	0
Totals	$1,241,478,000	$1,241,478,000	$9,073,000	$9,073,000

The overages shown in the above statement are being adjusted in the usual manner by making distribution to other reserve banks.

EXHIBIT "D"

STATEMENT SHOWING EARNING ASSET HOLDINGS OF ALL FEDERAL RESERVE BANKS OCTOBER 19, 1927 COMPARED WITH PREVIOUS WEEK AND OCTOBER 20, 1926, ALSO WEEKLY AVERAGE OF EARNING ASSETS FROM DECEMBER 29, 1926 TO OCTOBER 19, 1927 AS COMPARED WITH CORRESPONDING PERIOD 1926 AND ENTIRE YEAR 1926

(000 Omitted)

	Boston	New York	Phila.	Cleveland	Richmond	Atlanta	Chicago	St.Louis	Minn.	Kan. City	Dallas	San Fran.	Totals
Bills Discounted - Oct. 12	$33,932	$119,787	$35,404	$54,590	$29,014	$22,505	$33,043	$18,805	$ 6,493	$ 12,516	$ 4,797	$ 59,363	$ 430,249
" " " 19	27,641	96,873	38,563	43,306	33,375	25,129	51,129	28,260	2,007	21,707	7,756	41,851	417,597
Net Change	6,291-	22,914-	3,159+	11,284-	4,361+	2,624+	18,086+	9,455+	4,486-	9,191+	2,959+	17,512-	12,652-
Bills Purchased - Oct. 12	28,873	111,125	11,940	16,620	33,251	2,404	25,014	3,866	10,186	9,822	11,672	9,588	274,361
" " " 19	30,366	102,843	12,601	18,757	38,053	2,414	30,533	3,700	11,652	10,656	13,504	7,424	282,503
Net Change	1,493+	8,282-	661+	2,137+	4,802+	10+	5,519+	166-	1,466+	834+	1,832+	2,164-	8,142+
Government Securities - Oct. 12	27,049	105,216	36,222	55,585	27,455	12,988	74,227	36,600	22,880	35,082	31,023	45,802	510,129
" " " 19	27,592	102,026	38,172	57,203	12,455	13,370	74,583	36,900	24,230	35,832	32,227	45,803	500,393
Net Change	543+	3,190-	1,950+	1,618+	15,000-	382+	356+	300+	1,350+	750+	1,204+	1+	9,736-
Total Earning Assets - Oct. 12	89,854	336,128	83,566	126,795	89,720	38,197	132,284	59,271	40,079	57,420	47,492	114,753	1,215,559
" " " " 19	85,599	301,742	89,436	119,266	83,883	40,913	156,245	68,860	38,409	68,195	53,487	95,078	1,201,113
Net Change	4,255-	34,386-	5,870+	7,529-	5,837-	2,716+	23,961+	9,589+	1,670-	10,775+	5,995+	19,675-	14,446-
Comparison of Weekly Average of Earning Assets													
Dec. 29, 1926 to Oct. 19, 1927	71,647	259,977	81,087	107,012	48,804	49,214	146,389	59,277	32,447	53,141	43,018	102,678	1,054,691
Same period 1926	80,818	272,491	90,072	106,914	61,342	75,957	153,674	63,210	37,973	63,902	53,501	115,279	1,175,133
Entire year 1926	82,511	278,628	91,705	115,174	59,659	76,645	164,144	63,841	37,874	63,528	52,777	116,047	1,202,533
Net change from same period 1926	9,171-	12,514-	8,985-	98+	12,538-	26,743-	7,285-	3,933-	5,526-	10,761-	10,483-	12,601-	120,442-
" " " entire year 1926	10,864-	18,651-	10,618-	8,162-	10,855-	27,431-	17,755-	4,564-	5,427-	10,387-	9,759-	13,369-	147,842-
Comparison of Earning Assets													
October 19, 1927	85,599	301,742	89,436	119,266	83,883	40,913	156,245	68,860	38,409	68,195	53,487	95,078	1,201,113
October 20, 1926	65,285	205,574	94,846	136,604	67,883	92,479	173,788	67,504	50,788	59,070	52,045	123,044	1,188,910
Net Change	20,314+	96,168+	5,410-	17,338-	16,000+	51,566-	17,543-	1,356+	12,379-	9,125+	1,442+	27,966-	12,203+

SUMMARY FOR SYSTEM

Bills Discounted for week	$12,652-
Bills Purchased for week	8,142+
Government Securities for week	9,736-
Total Earning Assets for week	14,446-
Comparison of Weekly Average of Earning Assets Dec. 29, 1926 to Oct. 19, 1927 with same period 1926	120,442-
Comparison of Weekly Average of Earning Assets Dec. 29, 1926 to Oct. 19, 1927 with entire year 1926	147,842-
Comparison of Earning Assets Oct. 19, 1927 with Oct. 20, 1926	12,203+

1✓

November 1, 1927. 333-1-2

The committee has considered the confidential preliminary memoranda submitted by the Chairman, and upon the basis of the memoranda proposes that the open market policy of the System until March 1st next, unless developments not now anticipated require a further review, shall be; to maintain stable rates for money at about present levels and prevent further imports of gold.

In order to carry out the above policy, the committee would adopt the following program and procedure;

(1) The plan of offsetting gold movements by purchases and sales of securities would be continued as heretofore.

(2) Any considerable advance in rates for money towards the end of the year would be dealt with only if necessary by temporary purchases of securities.

(3) During the return flow of currency which usually occurs in January, sales of securities would be made in amounts sufficient to insure retirement of the seasonal issue and prevent its being added to member bank reserves.

(4) In event of the renewal of a gold movement to the United States, gold may be purchased abroad in London, and possibly in Holland and Switzerland, if necessary, at approximately their gold export points, or exchange on those countries may be purchased, so as to arrest, if possible, a further importation of gold. The limit upon such purchases to be $100,000,000. Such purchases would also be offset the same as the gold movement. (1) "Gold or exchange purchased may be invested in bills or employed at interest, as in the case of the Bank of England account."

AT BOARD MEETING NOV 2 1927

Agreed

See letter 11-2-27

(5) The considerations which will guide the committee as to when and for what amounts such transactions shall be made, are:

(a) The amount of borrowings by member banks from the Reserve banks;

(b) The general level of interest rates;

(c) The movement of foreign exchange rates as an indication of possible gold imports.

The committee would expect to be charged with the execution of the program for account of those Reserve banks which approve and participate.

333-b2

11-1-27

The Committee has considered the memorandum submitted by the [ch]airman and has reviewed the program adopted by the committee on [No]vember 1, 1927 and approved by the Federal Reserve Board. Thereupon, the following conclusions were adopted:

1. The object of the policy adopted on November 1 has been accomplished.

2. The Committee program should now work towards somewhat firmer money conditions as far as necessary to check unduly rapid further increases in the volume of credit.

3. In order to accomplish this program the committee would expect to sell further amounts of Government securities and if necessary to deal with gold movements in such manner as necessary to carry out the program.

As outlined ~~in the~~ program of November 1, The committee would expect to be charged with the execution of this program for the account of those reserve banks which approve and participate and would hope this program might guide the committee for the present, unless a change of conditions makes further review desirable.

-11111-

This memo approved
1-12-28

FEDERAL RESERVE BANK
OF NEW YORK

333.-6-2

October 25, 1927.

Dear Governor Young:

I have already sent you the Chairman's memorandum for the Open Market Committee meeting, and Dr. Burgess's memorandum to me about stock speculation. This I now supplement by the Secretary's memorandum of the detail transactions.

See 11-2-27

A further supplement will be needed to cover the sale of gold to the Bank of France, but that has not yet been prepared.

Very truly yours,

Benj. Strong

Chairman
Open Market Investment Committee.

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

enc.

FEDERAL RESERVE BANK

OF NEW YORK

333.-6-2

October 21, 1927.

My dear Governor Young:

Following our talk in Washington, I have discussed the immediate outlook with my associates in the bank and we have all agreed that it will not be necessary to hold a meeting of the Open Market Investment Committee until the time of the Governors Conference.

Believing that this will best suit your own plans, I have written to the members of the committee asking them if they can arrange to be in Washington on the morning of November 1 so that we may have ample time that day for discussion of the memorandum already sent you, and for the formulation of some recommendations. I hope this is entirely satisfactory to you.

Sincerely yours,

Benj. Strong

BENJ. STRONG,
Chairman, Open Market
Investment Committee.

RECEIVED
OCT 21 1927
GOVERNOR

FEDERAL RESERVE BANK

OF NEW YORK

PERSONAL

October 19, 1927.

333.-6-2

My dear Governor Young:

With this I am enclosing a memorandum 10-18-27 which is being submitted to the members of the Open Market Committee for their consideration prior to the meeting which we hope to have in Washington in the near future, also a copy of the memorandum 10-18-27 prepared by Dr. Burgess at my request on the subject of the Stock Market.

I hope you will consider these memoranda privately for the moment, as changes may be made before the meeting and it would be a mistake to have opinions crystallize until a final draft of the memoranda can be submitted.

I am sending two copies of each memorandum as I hope you will find it possible to hand one set to Secretary Mellon so that he and you may both be acquainted with the material to be discussed at the meeting.

There is one point of view about our credit situation which is not covered by the papers, and concerning which I am not willing to express any very definite views. The situation may be summarized very roughly as follows:

In the last three years there has been no considerable addition to the gold stock of this country. We figure it amounts to only $18,000,000 net. During that period the average amount of Federal reserve credit in employment has increased gradually by the sum of about $200,000,000. In the same period the total volume of bank credit in the country has increased considerably. The figures for reporting member banks are about $3,000,000,000, and in the ratio which usually prevails this would indicate a total increase of bank credit for all institutions of possibly over $5,000,000,000. Of this increase, however, possibly as much as 60 per cent consists of time deposits of which possibly 80 per cent. are actual savings accounts. In other words, in the absence of additions to our gold stock the banks have required $200,000,000 more credit at the Reserve banks in order to maintain the reserve necessary to sustain this increased volume of deposit liabilities caused mainly by the growth of savings and partly, of course, by the growth of population and of business activity.

Of the amount of increase of bank credit referred to, a considerable portion has been employed by the banks in loans upon securities. It is the growth of this loan account which has caused apprehension in the minds of some people, and at times led to the suggestion that we should sell some of our securities and maintain higher discount rates or at least not lower them, so as to check the growth of that loan account. I have not felt that such a policy was justified by the facts, that any effort through higher rates directed especially at stock speculation would have an unfavorable effect upon business generally, and that this would be particularly unfortunate at a time when we are producing a surplus of exportable farm products which cannot be marketed abroad unless this country remains a free loaning market for the rest of the world. In a word, it would mean directing the influence of the Reserve banks against stock speculation regardless of the consequences to business generally and the consequences especially to the farmers at home and our customers abroad.

At the next meeting of the Open Market Committee I think this general question of our policy should be faced squarely and an understanding arrived at as to general policy, the execution of which should be entrusted to the committee.

When the committee meets we shall probably be able to lay out a program which will be fairly specific and cover a period of, say, three or four months.

I will leave it to you to have a word with Secretary Mellon about it.

Very truly yours,

Benj. Strong

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

333-8-2

CONFIDENTIAL

To Governor Strong — October 18, 1927

From W. R. Burgess — Memorandum on the Stock Market

The concern of the Federal Reserve System as to the stock market has to do with its use of credit. There are two principal ways in which the amount of credit employed by the market can be judged.

First. A comparison of changes in such use of credit with such related factors as the prices of securities, the volume of trading, and changes in other forms of credit.

Second. The soundness, i.e. permanence, of current market values against which the credit is advanced.

1. Use of Credit in Security Markets

Security Loans and Stock Prices

The following chart shows the changes in recent years in loans on stocks and bonds of the reporting member banks in principal cities, in comparison with prices of common stocks. In general the two lines move closely together, but in the past year security loans have increased less rapidly than stock prices. The spread between these two lines would appear to indicate some tendency toward greater conservatism in the use of credit in security market operations, which may be due to such factors as larger margins or a larger proportion of investment buying for cash.

2


LOANS
BILLIONS of DOLLARS
STOCK
PRICE INDEX
7
6½
6
5½
5
4½
4
3½
3
2½
175
162½
150
137½
125
112½
100
87½
75
62½
LOANS SECURED
by STOCKS & BONDS
STOCK
PRICES
1919
1920
1921
1922
1923
1924
1925
1926
1927

Security Loans and Volume of Security Operations

A further test of the present volume of loans on securities may be found in the concurrence of the movement of security loans, the volume of trading, and the volume of new financing. This comparison is made on the following diagram and indicates that increases in extensions of credit have been no greater than the increases in the volume of security operations.

Security Loans in Relation to Total Bank Credit

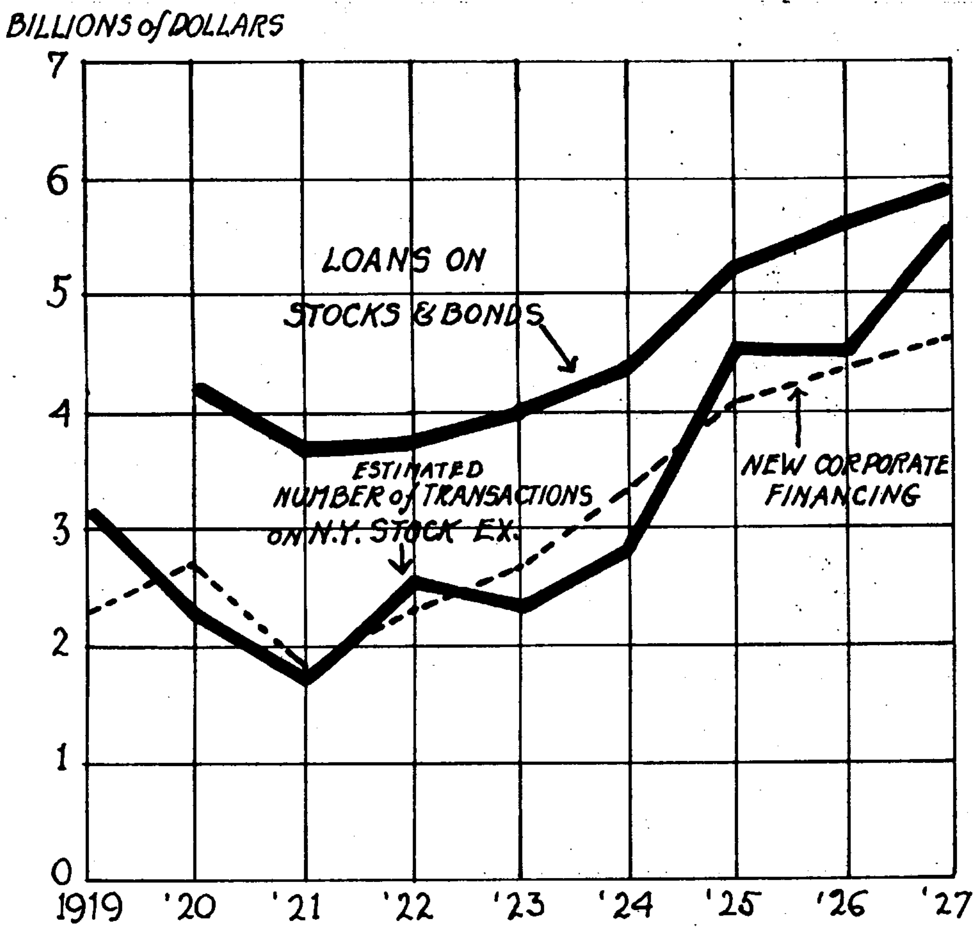
The second chart on the page shows the ratio of bank loans on securities to the total amount of loans and investments of the reporting member banks. It indicates that, while in 1925 the ratio of security loans to total bank credit increased from 25 to 29 per cent, since that date this ratio has fluctuated within narrow limits.

The proportion of brokers loans to total loans on stocks and bonds has been rising since early this year but remains slightly lower than in January and February 1926, though higher than at any other time in recent months. These ratios are shown in the following table.

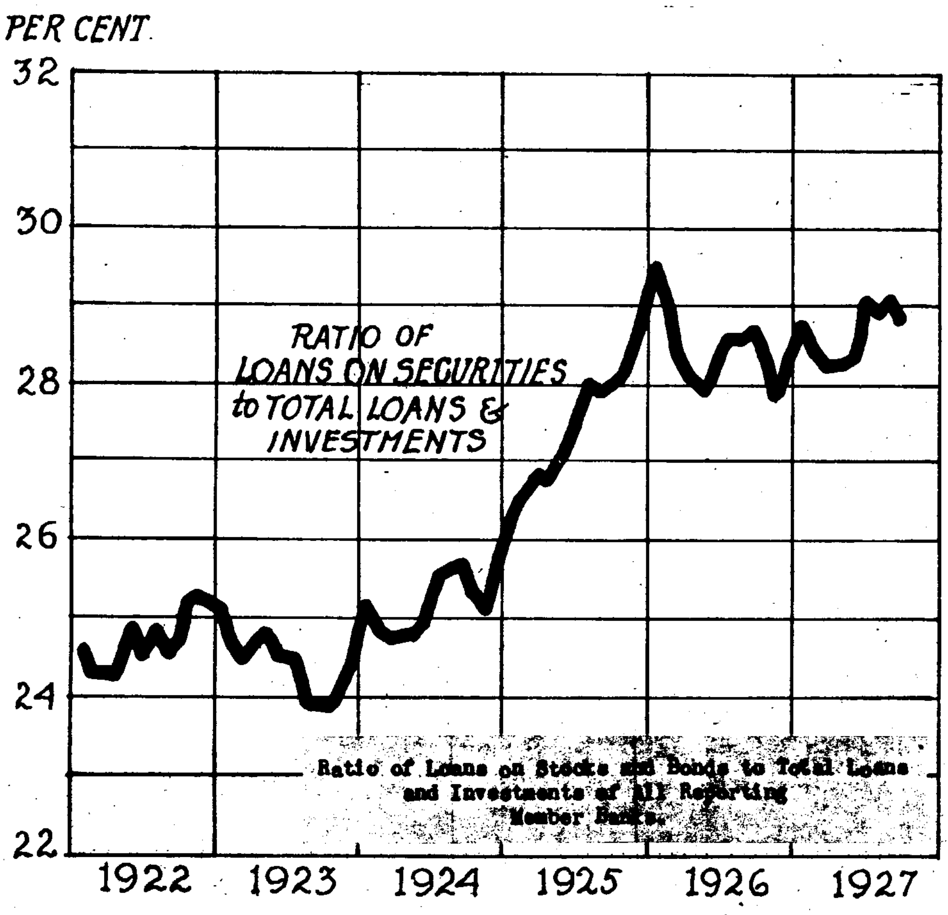
Percentage of Brokers Loans to Loans on Stocks and Bonds of all Reporting Member Banks of System

Last Reporting Date	1926	1927
January	56.2	49.9
February	57.3	50.7
March	47.6	50.2
April	46.6	51.1
May	45.9	52.1
June	46.0	53.4
July	47.8	53.6
August	49.7	54.4
September	50.2	
October	48.2	
November	48.6	
December	48.8	

Sp 1467 4



Yearly Averages of Weekly Figures on Loans on Stocks and Bonds by Reporting Member Banks, Compared with Volume of New Corporate Financing and Estimated Number of Transactions on New York Stock Exchange. (1927 estimated)



Ratio of Loans on Stocks and Bonds to Total Loans and Investments of All Reporting Member Banks.

Summary as to 1.

The foregoing facts may be summarized by saying that while loans on securities are very large and have been increasing they do not appear, if they may be judged by previous experience, to be seriously disproportionate to:

A. Stock prices

B. Volume of trading

C. Total bank credit

2. Soundness of Current Market Values

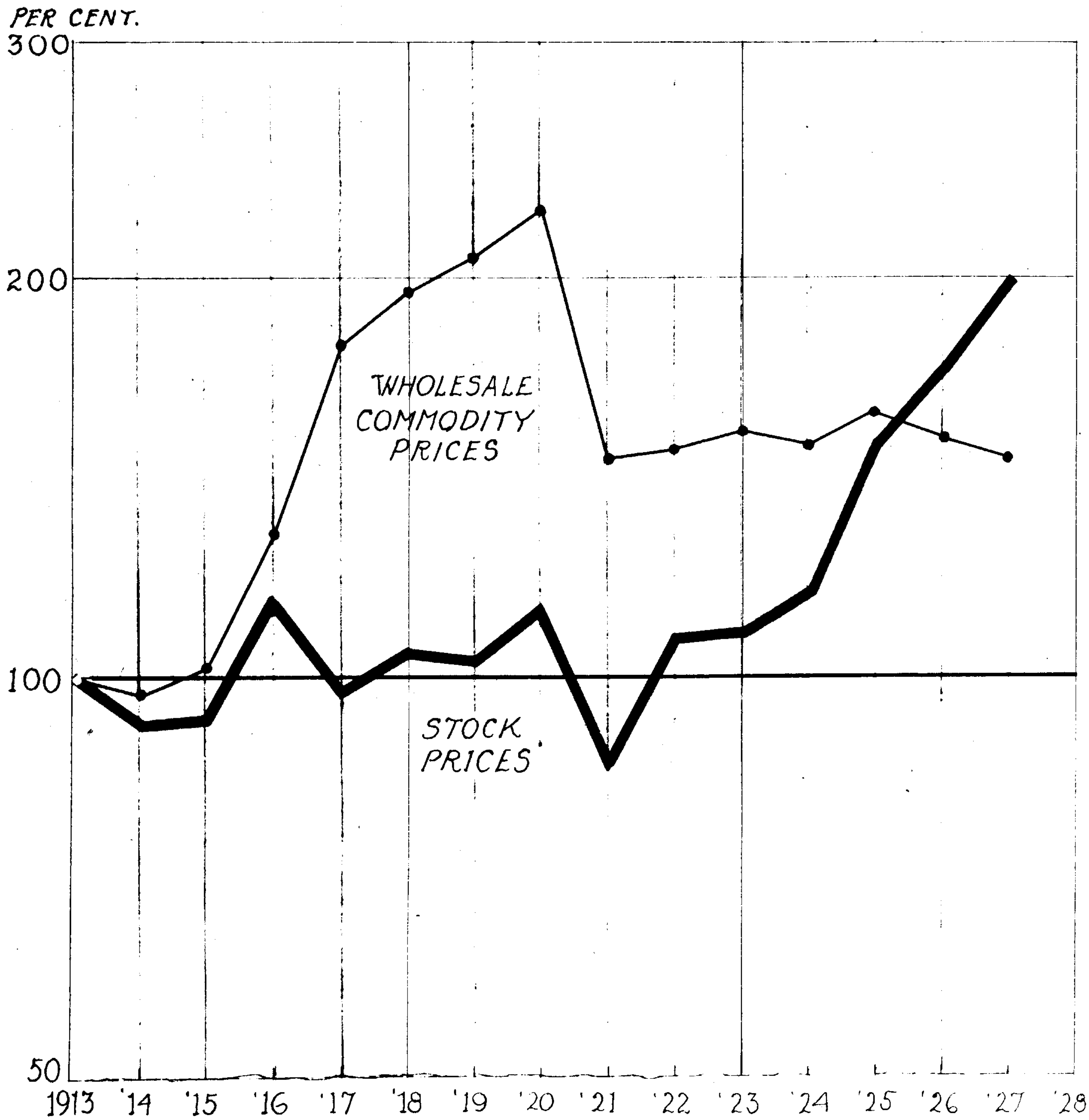
While the foregoing comparisons are interesting and give some indication that the present relation of the use of credit in the security markets to the general growth of credit in the country and the general trend of stock market prices and volume of trading is not unprecedented, the more important related question is whether present values in the security market have a sound basis, for the danger to be feared is a collapse of the market, which would react upon business and bring serious losses to many people. The likelihood of such a crash is increased when stock market prices get out of touch with reality.

There are two general tests as to the soundness of current stock market prices. Stocks are dealt in the same as commodities at varying prices, and presumably there should be some relation between their price movement and the movement of the prices of commodities. But stocks are also a particular kind of commodity, the value of which consists in the current and prospective yield. Thus a more important test of stock prices is their yield compared with the yield of other forms of investment.

Stocks and Commodity Prices

The following diagram compares prices of stocks with the movement of commodity prices and indicates that up until comparatively recently the prices of stocks have increased less since 1913 than the wholesale prices of commodities, but that in the past two years the prices of stocks have tended to exceed the prices of commodities. This comparison for a number of reasons is very rough and very general. The industrial plants, stores, etc., which stocks represent, are commodities the prices of which would not normally move with a general index which includes largely basic commodities. Moreover, industrial concerns are continuously expanding their plants and equipment by the use of surplus earnings, and hence increasing the value of their stocks. This factor is partly compensated for by additional issues of stock. There is no way of knowing how precise is this compensation.

Sp 1466

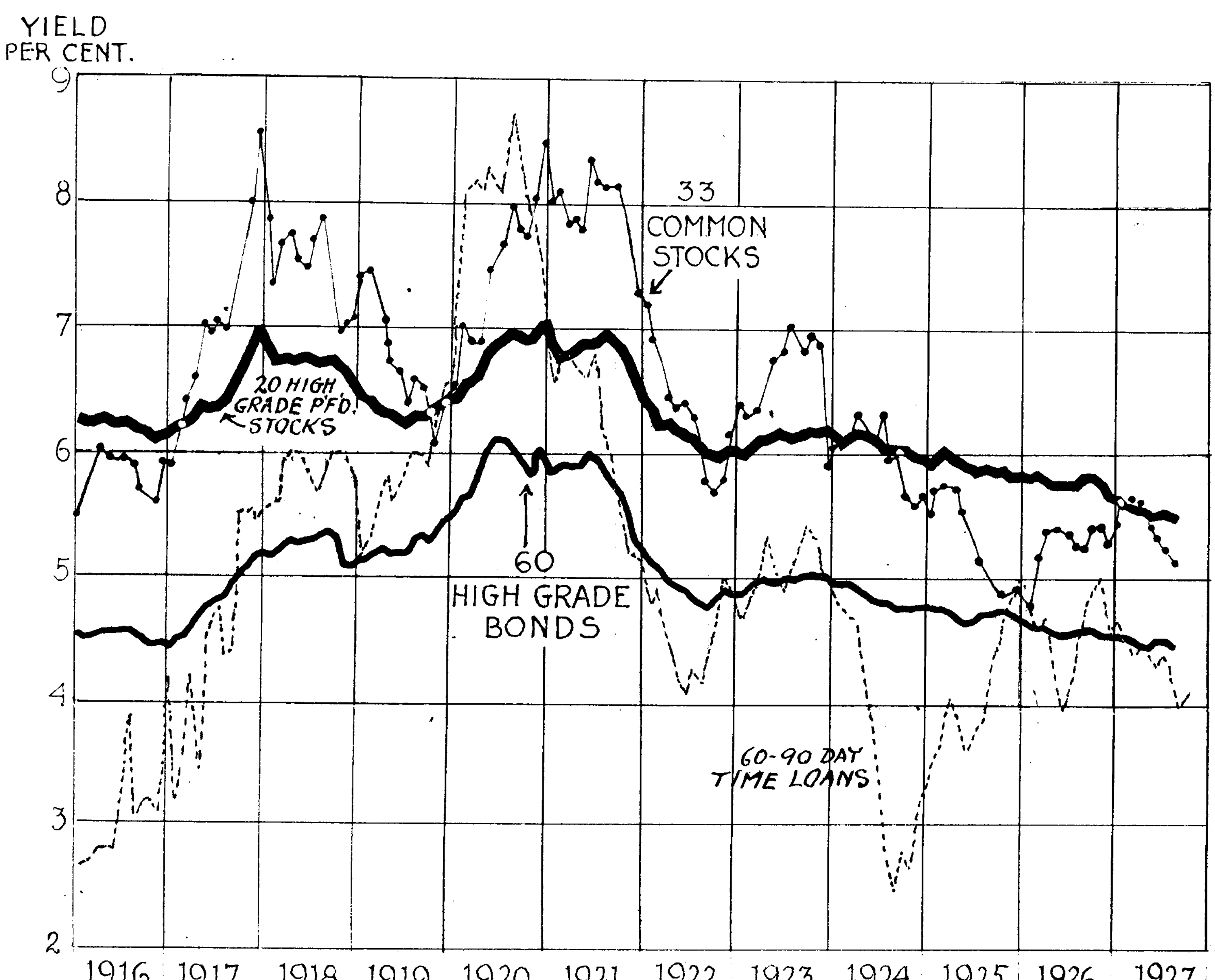


Stock Price Index, Computed by Combining Dow-Jones Averages of Industrial and Railroad Stocks in the Proportion of 3 to 1, Compared with Bureau of Labor Statistics Index of Wholesale Prices. (Both indexes on 1913 base, 1927 estimated.)

Yields on Stocks Compared with Other Investments

Over a long term of years it has been clearly demonstrated that the dividend yields on stocks at their currently quoted prices bear a significant relation to the yields on bonds or money invested for short periods. Stock yields have in this country tended to be one or two per cent higher than bond yields, and also higher than time money rates (as an example of short money rates) but there have been times when stock yields have gone below both bond yields and short money rates. The general relationship of these rates over a period of years is shown in the following diagram.

R.1266.9A



Yields on Dividend Paying Common Stocks Compared with Yields on Preferred Stocks and Bonds and Rates on 60-90 day Time Money.

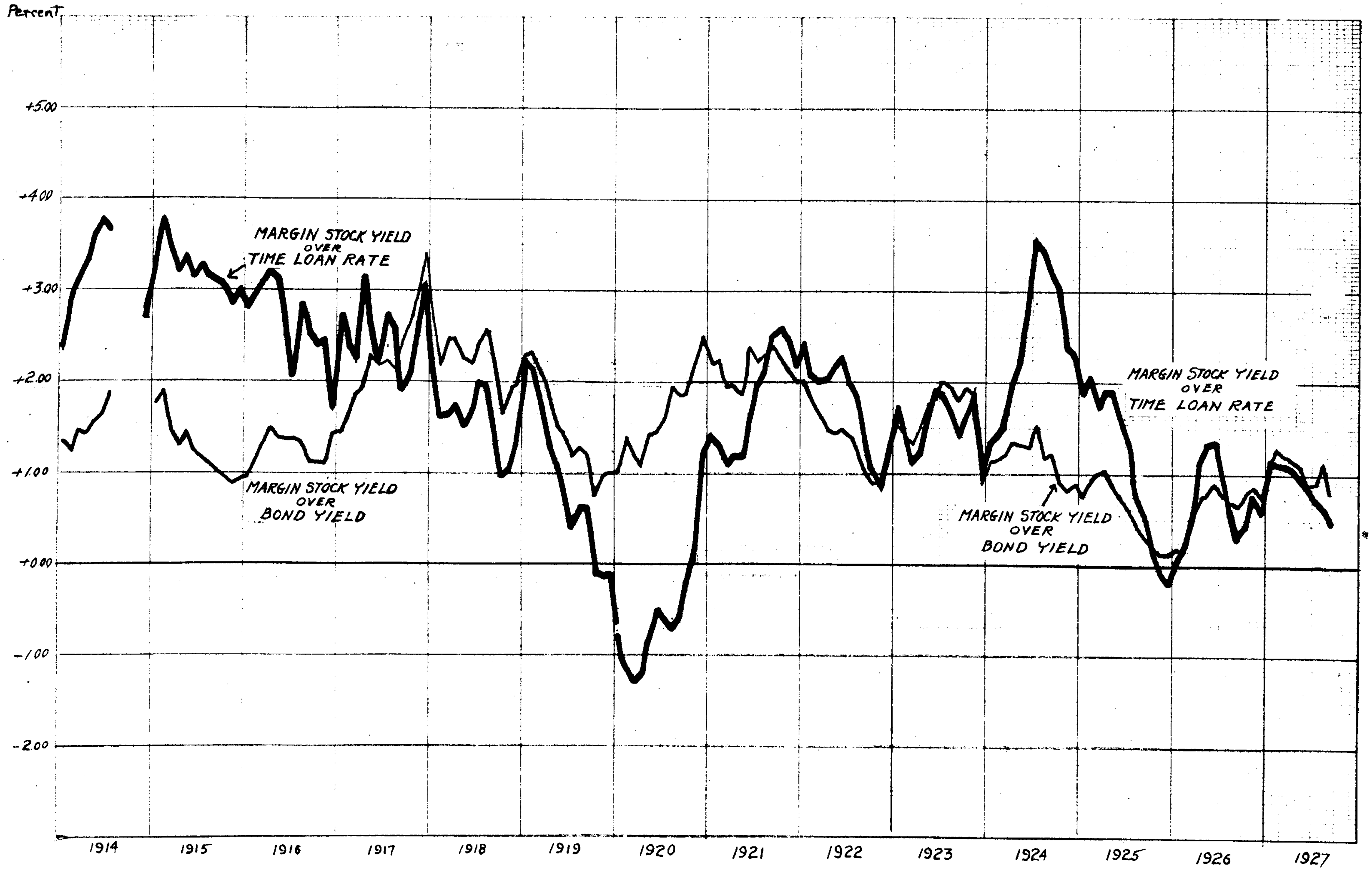
The normality or abnormality of stock market prices can perhaps be measured more precisely by observing the deviations of stock yields from bond yields and current money rates. Such computations are made in the following diagram. They indicate that while stock yields are low, they are not as low relative to bond yields and money rates as they have been a number of times in the past.

Moreover, there is some reason to believe that a fundamental change may be going on in the relative popularity of stocks and bonds in this country. In our historic emphasis upon bonds rather than stocks as a vehicle for investment, we have not followed the usual European practice. In many of the older European countries in which industries have been very firmly established, stocks of old industries have frequently sold on a yield basis lower than high-grade bonds. This relationship has been justified by the expectancy of increases in prices and yields of industrial shares.

The very heavy losses suffered by bond holders in this country in the past 20 years due to declines in bond values have led to some questioning of the soundness of our historic practice, and more latterly a number of statistical studies have shown that over the past 50 years purchases of common stocks would have constituted sounder investments than bonds. These findings have undoubtedly led to some change in the popular relative esteem of stocks and bonds, which has found expression also in the establishment of many investment trusts a considerable proportion of the funds of which has been invested in common stocks. All of this may be leading to a new relationship between the yields on common stocks, on bonds, and on short time money.

Sp 1480 11

MARGIN BETWEEN YIELD ON COMMON STOCKS AND
(1) TIME MONEY RATES AND (2) BOND YIELDS



Money Rates an Important Factor

The foregoing charts make it clear that money rates have a large influence upon stock prices. It seems reasonably clear that an increase or reduction in short money rates of 1 per cent, for example, might be almost a determining factor in the immediate trend of stock prices, and the permanence of present stock market values depends not a little on the future prospects for money.

Summary as to 2.

A comparison of stock prices and commodity prices indicates that stock prices are now higher relative to 1913 than are wholesale commodity prices, but this comparison is inconclusive because of the number of differences in the two things being compared.

A study of stock yields compared with yields on bonds and short money rates indicates that, from this point of view, stock prices are high, but no higher than they have been a number of times in the past, and there may be going on today also fundamental changes in this relationship. The present level of stock prices appears to be closely related to current money rates.

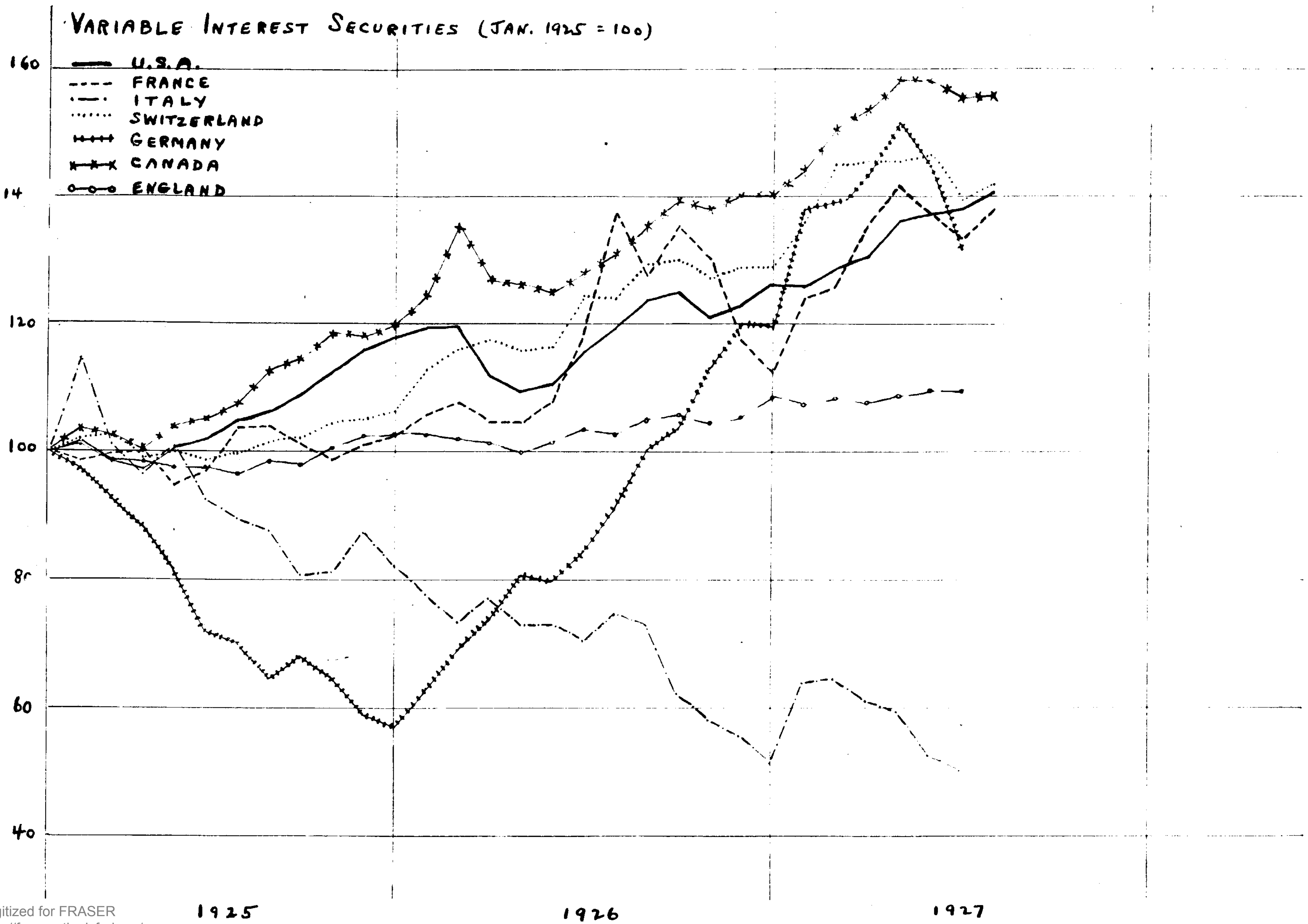
Security Prices Abroad

Some collateral light on security price movements here is thrown by comparing them with movements abroad. This is done in the following two charts, which indicate that both in stocks and bonds we have been dealing recently with a world tendency toward higher prices, which in a number of countries has exceeded the movement here.

The figures are shown in terms of the domestic currencies of various countries converted to a January 1925 base and in the cases of France and Italy are affected by fluctuations in the gold value of those currencies. The decline shown by Italian stock prices, in terms of lire, particularly since the middle of 1926 is due largely to appreciation in the value of the lire. In the case of France, if allowance were made for the appreciation of the franc since the middle of 1926, stock prices would be even higher than shown in the chart.

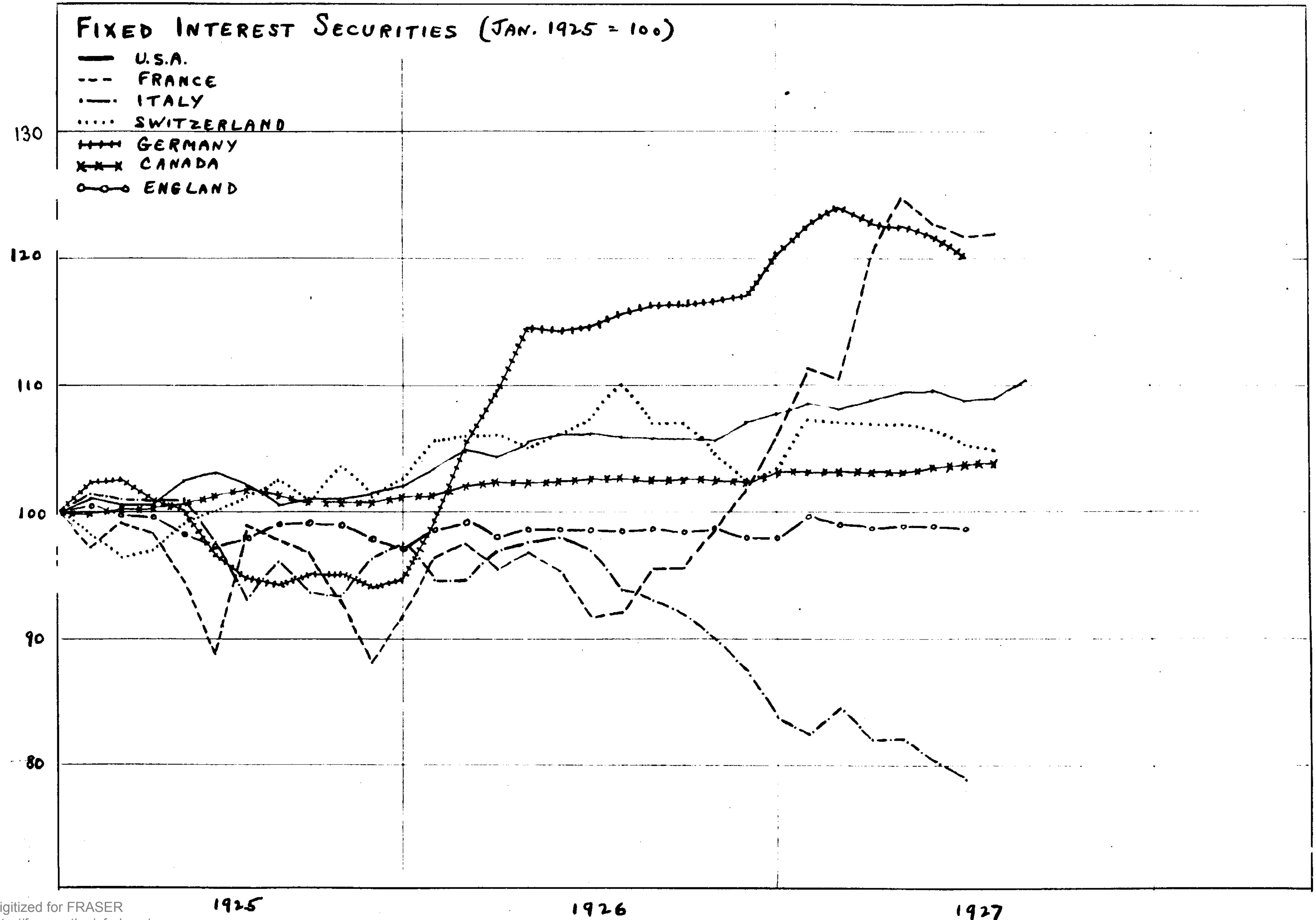
It would take further analysis than has yet been given to account fully for this world-wide movement. One of the possible explanations is that for the world as a whole we have been going through a period of readjustment to new bases of values. Another theory is that it is an era of unbridled speculation. In any event it is clear that the movement of security prices in this country cannot be laid wholly to our domestic monetary policy.

Indexes of Prices of Variable Interest Securities, Unadjusted for Variations in Exchange Value of Currencies.



Sp 1455 15

Indexes of Prices of Fixed Interest Securities, Unadjusted for Variations in Exchange Value of Currencies.



333.-6-2

CONFIDENTIAL

10/18/27
File date

Submitted
AT BOARD MEETING
NOV 1 1927

CONFIDENTIAL

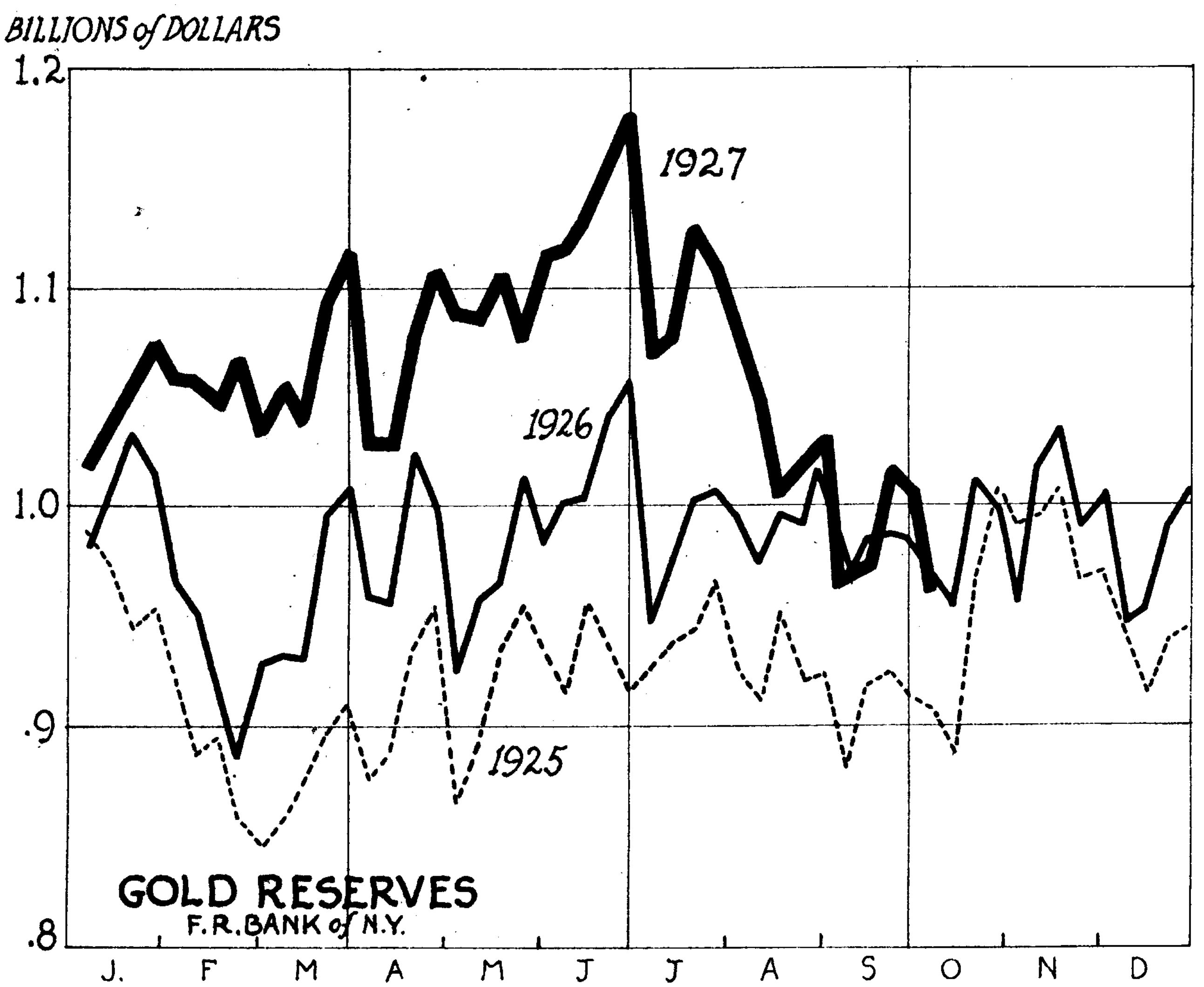
Preliminary Memorandum
for the
Open Market Investment Committee
October 18, 1927.

In accordance with the general policy forecast by discussions at the governors' conference in May and at the meeting of the Open Market Investment Committee on July 27, all of the Federal Reserve Banks have since that meeting reduced their discount rates from 4 per cent to 3 1/2 per cent. The timing of these changes was as follows:

July	29	- Kansas City
Aug.	4	- St. Louis
"	5	- Boston, New York
"	6	- Cleveland
"	12	- Dallas
"	13	- Atlanta
"	16	- Richmond
Sept.	7	- Chicago
"	8	- Philadelphia
"	10	- San Francisco
"	13	- Minneapolis

In order to make the change of discount rate effective in New York it was found necessary to purchase 50 million dollars of Government securities for account of the System, as previously authorized. The reduction of the rate in New York was followed by large transfers of funds to other districts, principally to the west. Between August 3 and September 7 (when the Chicago bank reduced its rate) the gold reserves of the New York bank declined 109 million dollars, most of the loss going to the Reserve Banks which still maintained a 4 per cent rate. Over the whole period from July 20 to October 12 the New York Bank lost 181 millions of gold, including transfers to other districts as well as gold exports and withdrawals of gold currency for circulation. As a consequence the

Sp 1464


BILLIONS of DOLLARS
1.2
1.1
1.0
.9
.8
1927
1926
1925
GOLD RESERVES
F.R. BANK of N.Y.
J.
F
M
A
M
J
J
A
S
O
N
D

borrowing of New York City member banks increased about 75 million dollars and, with prospects of even larger borrowings, it was necessary to purchase in August the 50 million of securities. Otherwise money rates would have experienced a sharp advance which would have defeated the purposes of the policies adopted.

In this same period it has been possible to liquidate all of the special sterling account with the Bank of England at a profit of $163,000. In order to offset the loss of funds to the New York money market resulting from these sales a corresponding amount of securities has been purchased, a reversal of the operation which took place in the Spring when purchases of gold abroad were offset by sales of securities. The transactions in the account since early in the year, exclusive of temporary or minor adjustments, are shown in the following table:

Major Transactions For
System Special Investment Account

Approximate amount in account January to May 1.	$201,000,000
Sale of securities, May 1 to May 9, to offset purchase of gold (mostly gold held abroad).	65,000,000
Balance in account May 9. . . .	$136,000,000
Purchases to offset gold earmarked in May and June.	100,000,000
Purchases during June and July under authorization of Committee meeting, held week of May 9.	29,000,000 *
Balance in account July 18. . .	$265,000,000
Purchases in August under authorization of Open Market Committee meeting of July 27.	50,000,000
Balance in account.	$315,000,000
Purchases in August, September and October to offset sales of sterling.	60,000,000
Balance in account October 18. .	$375,000,000

* out of an authorization of $100,000,000.

It will be observed that as a net result of the year's operations to date the Special Investment Account has been increased $174,000,000. Of this $95,000,000 represents offsets to market losses through earmarkings, etc., and $79,000,000 represents purchases made in keeping with policy aims.

A further result of the movement of funds from New York to other districts has been that member banks in districts other than New York have been able to meet the seasonal increase in credit requirements without any increase in their borrowings at their Reserve Banks, whereas banks in New York have increased their borrowings. The figures are as follows:

Discounts and Advances

(In Millions of Dollars)

(Monthly Averages)

	New York District	Other Districts	Total System
July, 1926	166	383	549
Sept., 1926	182	460	642
July, 1927	123	331	454
Sept., 1927	142	280	422

The decrease in total member bank borrowings as compared with a year ago arises partly from a lessened demand for Federal Reserve credit due to smaller currency requirements and gold imports and partly from the increase in the System's holdings of securities. The average figures for September for total bills and securities are as follows:

	Sept. 1926	Sept. 1927
Bills discounted	$ 641,797	$ 422,192
Bills bought	263,992	215,926
U. S. Securities	315,747	500,637
Total bills and securities	1,225,236	1,139,342

Under these conditions money rates have become relatively stable at levels about 1/4 to 1/2 of 1 per cent lower than at the middle of July and substantially lower than a year ago. The changes in rates are shown in the following table:

Money Rates at New York

	Sept. 30 1926	July 15 1927	Oct. 17 1927
Call money	*5-5 1/2	*4	*4
Time money - 90 day	5 1/8	4 1/2	4 3/8
Prime commercial paper	4 1/2-4 3/4	4 1/4	4
Bills - 90 day unendorsed	3 7/8	3 5/8	3 1/4
Treasury certificates and notes maturing December 15	3.54	3.03	2.89
" March 15	3.56	3.24	3.08
Federal Reserve Bank of New York rediscount rate	4	4	3 1/2
Federal Reserve Bank of New York buying rate for 90 day bills	3 3/4	3 3/4	3 1/4

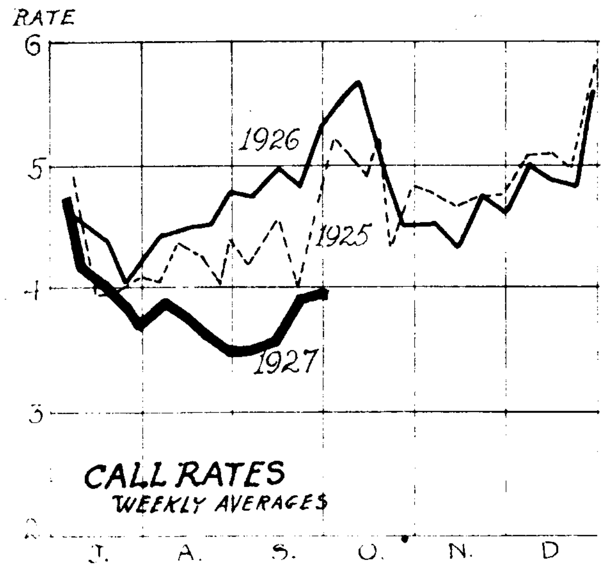
*Prevailing rate for preceding week

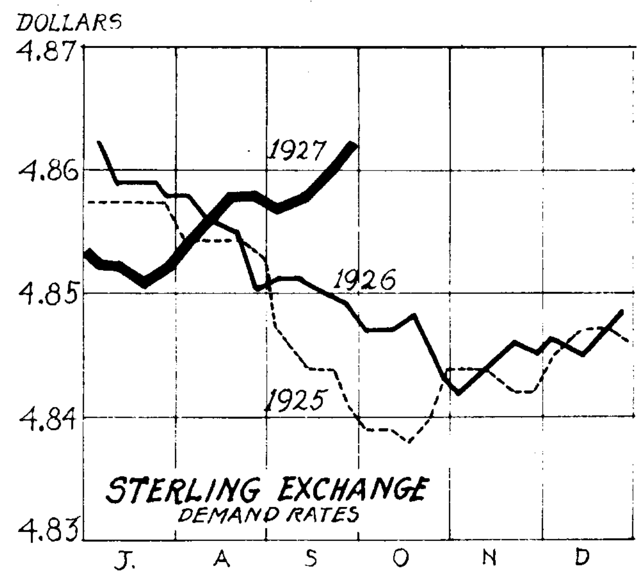
Consequences of Lower Rates

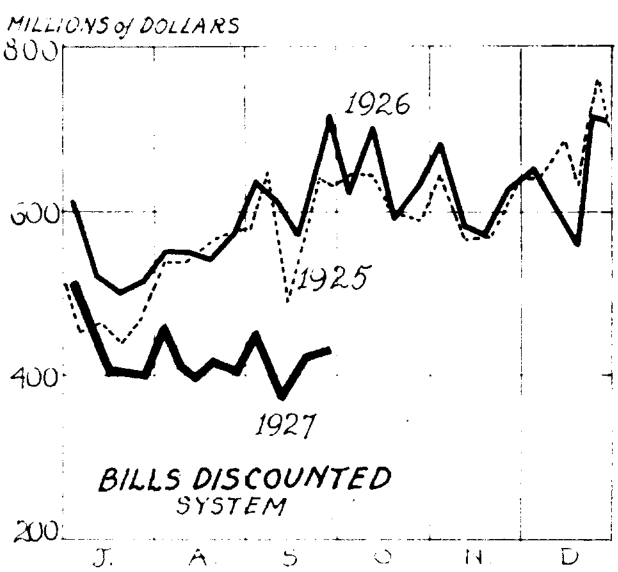
Aside from the domestic movement of funds from New York to other districts, [redacted] the following changes, related in some measure to the lower rate level, have taken place in the money market situation.

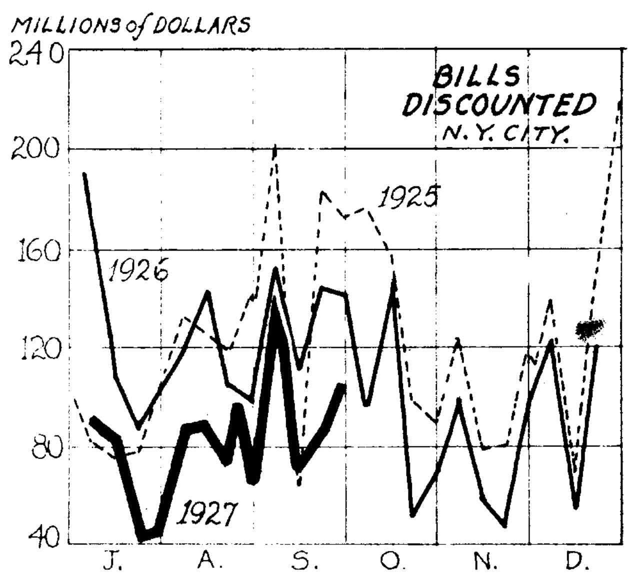
1. Higher Sterling Exchange. Whereas a year ago sterling exchange moved steadily downward from early July until the end of October, and such a movement had begun early in July this year, the lower level of interest rates prevailing has been an influence toward stronger sterling exchange, and the demand rate has moved from a little above $4.85 the middle of July to nearly $4.86 3/4 recently, and the cable rate from $4.85 1/2 to $4.87 1/8, - this notwithstanding sales of over 12 million pounds of sterling by the Reserve Banks. This strength in the exchange reflectsthe tendency for funds to move from New York to London, and some tendency for short and long term financing to be shifted from London to New York. The rates London banks are now paying for deposits are about 4 1/4 to 4 1/2 per cent, and are higher rates than those at which funds can be employed at short notice in the New York money market. Acceptance credits are now cheaper to obtain in New York than they were and

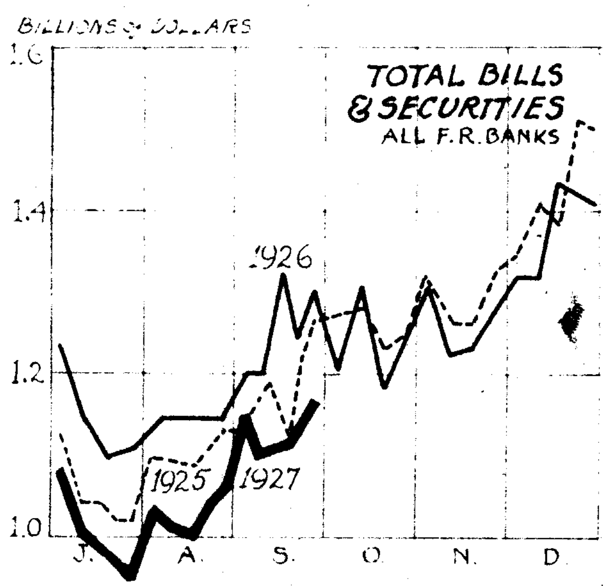
Sp1460

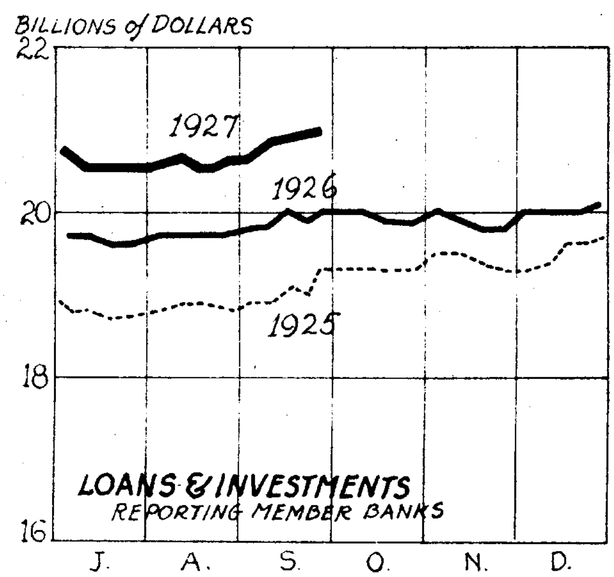

RATE
6
5
4
3
1926
1925
1927
CALL RATES
WEEKLY AVERAGES
J. A. S. O. N. D


DOLLARS
4.87
4.86
4.85
4.84
4.83
1927
1926
1925
STERLING EXCHANGE
DEMAND RATES
J. A S O N D

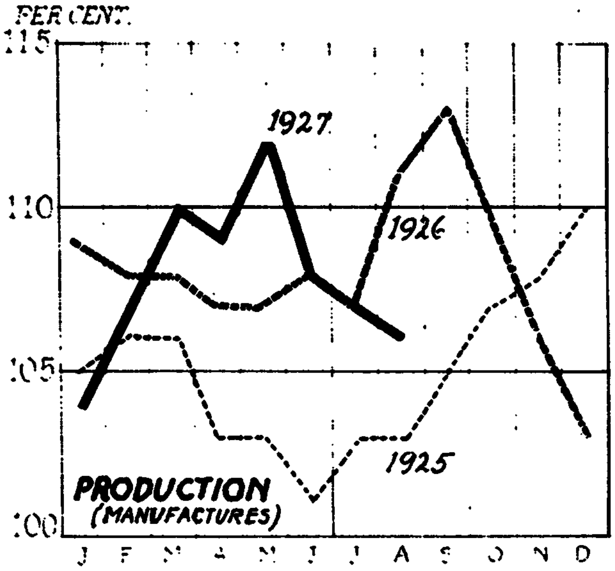

MILLIONS of DOLLARS
800
600
400
200
1926
1925
1927
BILLS DISCOUNTED
SYSTEM
J. A S O N D


MILLIONS of DOLLARS
240
200
160
120
80
40
BILLS
DISCOUNTED
N.Y. CITY.
1925
1926
1927
J. A. S. O. N. D.

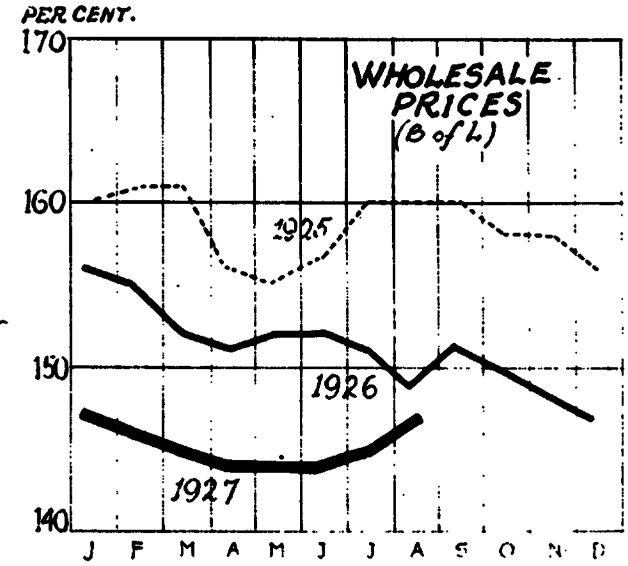

1.6
1.4
1.2
1.0
TOTAL BILLS
& SECURITIES
ALL F.R. BANKS
1926
1925
1927
J. A. S. O. N. D


BILLIONS of DOLLARS
22
20
18
16
1927
1926
1925
LOANS & INVESTMENTS
REPORTING MEMBER BANKS
J. A. S. O. N. D.

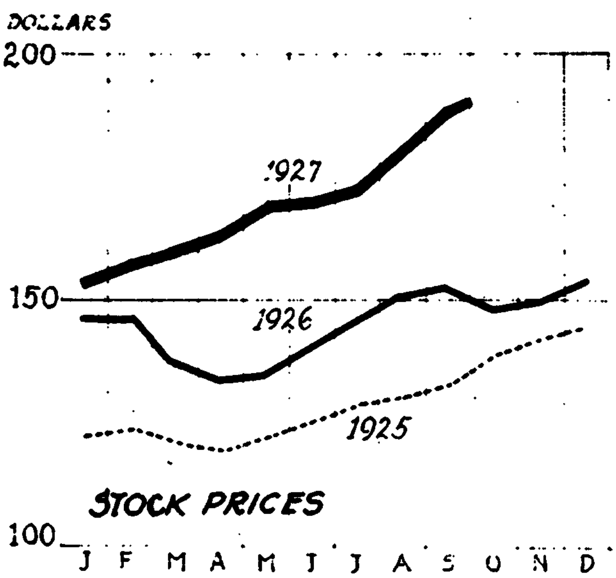
Sp 1461



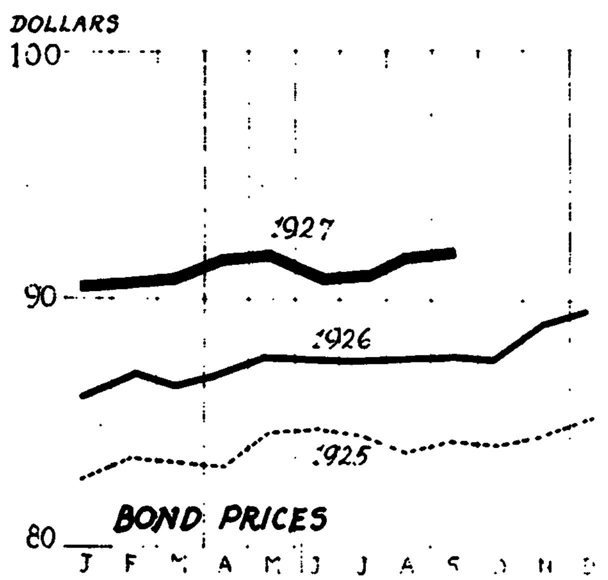
Federal Reserve Board's Index of Production of Manufacturers.



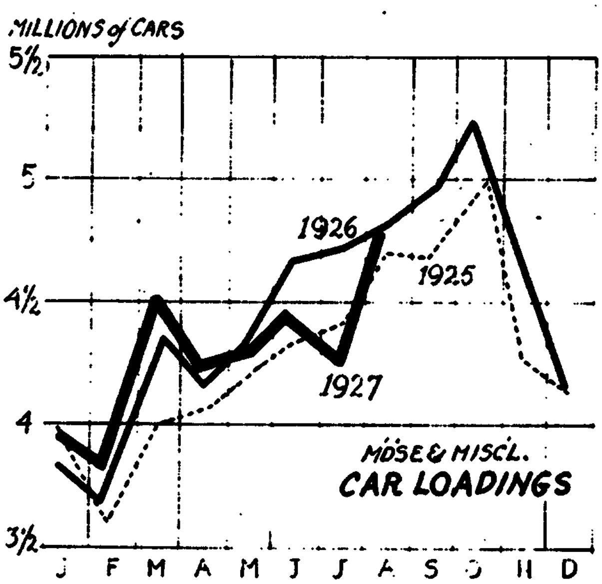
Bureau of Labor Statistics Index of Wholesale Prices.

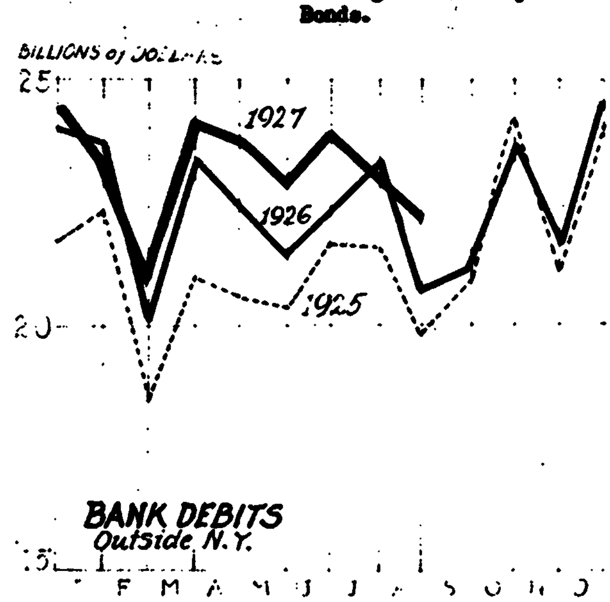


Standard Statistics Company Index of Prices of 228 Stocks.



New York Times Price Average of 40 Corporation Bonds.





the dollar volume of bills outstanding in this market is as large as at any time since 1920. Sterling long bills are also bought here by our banks and "carried" in London after acceptance instead of being discounted.

2. Net Gold Exports in September. In every month this year up to September there had been a net import of gold (if we exclude earmarkings). But in September there has at last been a net export movement of gold and gold imports for the [redacted] are arrested. A net outgo of about 13 million dollars was largely the result of a shipment of 23 million to the Argentine, more than offsetting imports of about 10 million from Australia. While the Argentine shipment was in the nature of a special transaction, the relation of exchange rates made it cheaper to purchase this gold in New York than in London.

So far this year all movements of gold (exports, imports, and earmarking operations) have resulted in a net gain to this country of about 49 million dollars. This is contrary to general views, which are based on reports that omit earmarked gold held by us. In this connection it is interesting to note that in the past three years, 1925, 1926, and 1927, during which there has been considerable discussion of our sterilizing gold, this country has gained as a net result of gold operations only about 18 million dollars of gold, which is less than seasonal movements of single years at times prior to the war.

3. Growth in Speculation. A further and less favorable result of easier money, and one which was anticipated, has been some stimulation of stock exchange speculation. There has been a growth of 336 million dollars since the middle of July in loans to brokers and dealers in New York, accompanying an irregular advance in stock prices.

There is no means of knowing beyond question how far this recent rise in stock prices represents excessive speculation and how far it represents a gradual readjustment of values to increased industrial efficiency, larger profits, higher commodity prices, and a lower basic interest rate level than for some years past. It is clear from a study of such relationships as those of stock yields with bond yields and with money rates, that the current level of stock market prices is less abnormal than a casual inspection of prices alone would suggest. The investment trust and the growing popularity of common stocks as investments are factors which may also be changing somewhat the old price and yield relationships.

4. Growth in Volume of Credit. There has been a considerable growth in the volume of bank credit, more rapid in fact than took place in either 1925 or 1926. but less than 1924. The figures of reporting member banks in principal cities for this year to date, in comparison with the three years previous, are as follows:

Increase January 1 to October 1 (In Millions)

	1924	1925	1926	1927
Total loans and investments	1,571	611	404	911
Commercial loans	275	153	301	23
Loans on stocks and bonds	440	573	87	333
Investments	856	115	190	554 *

* Includes 300 increase in governments, with biggest change at March tax period.

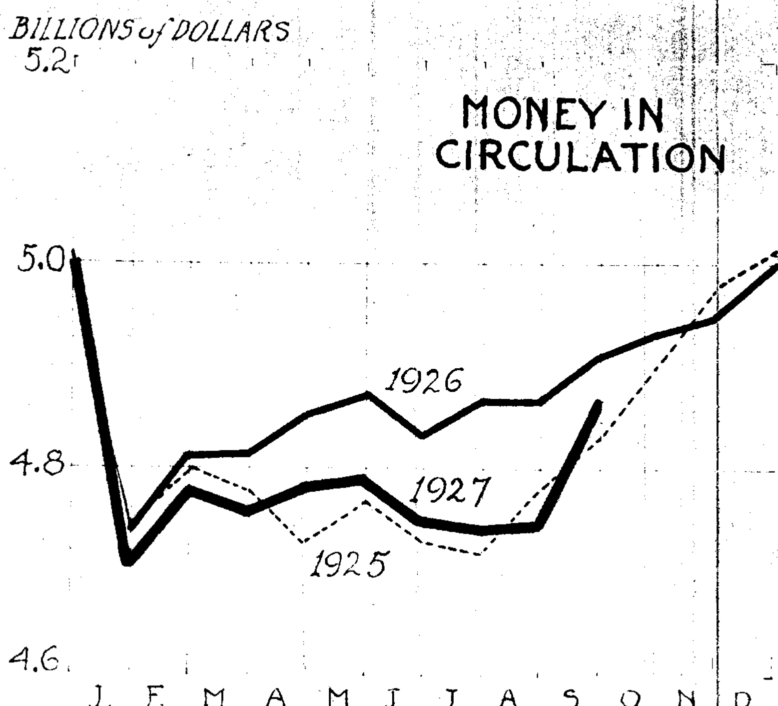
The increases in these items between the middle of July and the first of October have been as follows:

Increase Middle of July to first week of October (In Millions)

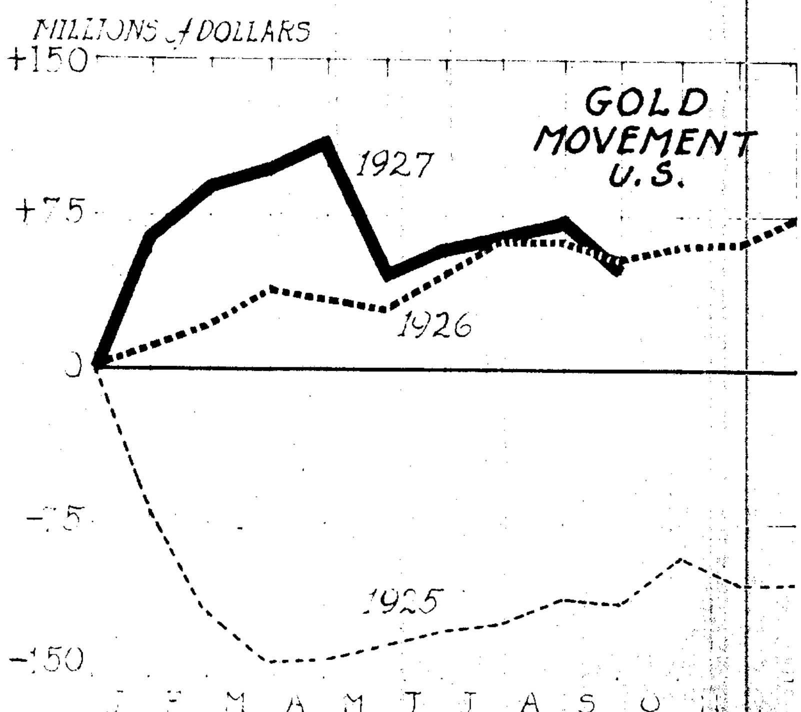
	1924	1925	1926	1927
Total loans and investments	1,029	495	359	634
Commercial loans	301	360	298	271
Loans on stocks and bonds	209	171	107	321
Investments	519	36	46	42

5. Greater Firmness in Commodity Prices. An index of prices of basic commodities, computed by the New York Reserve Bank, has been tending generally upward since early in the spring, due almost wholly to increases in agricultural prices, which may be ascribed largely to particular crop conditions but partly to success in marketing surplus production abroad. The upward movement has been accelerated, however, in the past two months and the larger index of the Department of Labor, made up from quotations for over 500 different commodities, also moved upward in July and August. This index is still, however, a number of points lower than it was a year ago.

Sp1462



Amount of Currency in Circulation at First of each Month, U.S. Treasury Department Reports.



Net Gain or Loss of Gold through Exports, Imports, and Earmarking.

General Condition of Business

There has been no marked change in the general business outlook. The general volume of manufacturing production is somewhat lower than a year ago and lower than it was early this year, a change which is reflected in a smaller currency demand than last year. The agricultural situation, however, has improved and there are prospects for larger crops than had been anticipated early in the spring, and an increase in the purchasing power of the farm population. The general business outlook is, however, for a continued fairly good volume of business activity during the balance of the year, without either a recession or a boom. Many authorities agree that increasing domestic competition is affecting profits adversely.

Developments Abroad

The outstanding new developments in European money markets are the increases of the discount rates by the Reichsbank from 6 to 7 per cent, and its Lombard rate from 7 to 8 per cent and but recently of Holland from 3 1/2 to 4 1/2. Aside from these changes the rates of central banks abroad have been at the same level as in July. The explanation of the change of rate by the Reichsbank is its reduced reserve assets, and in general it illustrates the narrowness of margin within which the banks of issue of Europe are operating and probably reflects some strain in meeting payments due to the U. S. The reserves of most European banks of issue are not adequate generally to undergo any considerable or continued strain without the necessity for increases in rates. The latest moves emphasize the importance of this country's maintaining, if possible, a rate relationship with Europe, such that at least the world's new gold output available for monetary purposes may not be diverted to this country but may flow to those centers where the reserves are most in need of reinforcement.

The Sterling Position

While our rate reductions, together with a recent increase in foreign loans placed in this market, a movement by American banks to accumulate balances in London, and probably some covering of short positions in sterling have led to the sharp advance in sterling rates commented upon earlier, there remains some question as to the position of sterling for the balance of this year. The movement of cotton, while smaller than last year, is at much higher prices and the delayed movement has probably not reduced total dollar requirements. The larger amount of bills being drawn in dollars than last year, simply defers the demand abroad for dollars.

Some of these developments simply defer but do not finally effect dollar payments. It is hoped that the ultimate demand for dollars may go over until the period of liquidation and ease of rates immediately after January 1st. In the meantime, however, the committee should be prepared to intervene, if necessary, and again accumulate a London portfolio at the London gold export point, or buy gold in London when offered for export to New York. In case of such purchases the committee should consider whether offsetting sales of securities should not be made in New York just as they were in the spring when gold was acquired abroad.

The Guilder Position

The holiday delayed cable exchanges which might have enabled us otherwise to agree with the Nederlandsche Bank upon a plan to avoid their rate increase or limit it to 1/2 per cent, instead of 1 per cent. This situation may recur and should be considered by the committee.

As to Offsetting Gold Movements or the Equivalent

The experiences of this year have provided a demonstration of the effectiveness of the policy of offsetting gains and losses of gold through import, export, or earmarking by purchases or sales of securities. Purchases or sales of gold abroad or of exchange, which have just the same effect on the market as gold movements, have been similarly offset, as indicated by the table on page 2. That table indicates, that whereas the open market account increased from 136 million in May to 375 million in October, only 79 million of the purchases were of a nature to affect the credit situation; the balance represented offsets.

The effect of such offsetting purchases or sales has been to prevent disturbance to the credit situation from artificial causes. If purchases or sales of this sort are not made promptly, not only will money rates be affected, sometimes quite sharply, but the borrowings from the reserve banks will become readjusted automatically at times when not desirable. In the case of imports of gold, unless repayments of loans are at once made to the reserve banks, loan expansion occurs at once in the market.

Failure to "offset" a gold import or export (or equivalent earmark transaction) has the same result as a purchase or a sale of securities when no gold movement occurs. The same situation arises whenever large transactions for foreign banks alter the reserve position, and occasionally when changes occur in Treasury balances with the Reserve Banks.

It should be understood that these necessary adjustments will be made from time to time, within reasonable limits and for a round amount, the members of the committee being consulted by telephone. At times action must be taken at once, - for example, when a foreign bank desires to sell securities and earmark gold, or when our own foreign balances are being liquidated as recently.

Sales of Sequrities in January

In addition to any sales of securities which may be necessary to offset any purchases of foreign exchange, or gold abroad, it will be necessary to consider whether sales should be made in January. In case borrowings at the New York Reserve Bank, and possibly other Reserve Banks, are not sufficient to absorb the January return flow of currency and Reserve Bank credit, the committee should consider sales of securities.

Future Program

As to specific cases

The committee should consider the following -

1. The Reserve Banks being prepared to repeat the operation of buying gold or balances abroad, if necessary, to prevent gold movement from London or some other foreign center.

2. A continuance of the general understanding that the committee will undertake to offset by purchases and sales of securities any such major gold, or equivalent, operations as have been offset this year. This would include the offsetting of purchases or sales of sterling or other foreign currencies.

3. The desirability of sales of securities in January, if it appears necessary, to take up slack in the money market.

As to general policy.

A review of the events of the past two months makes it clear that the policies agreed upon in July have so far been successful, more so perhaps than could have been anticipated. Concerning the future, the principal questions are -

1. How long will the firmness of sterling and other European exchanges be maintained, even with present rate relationships, when the full seasonal strain for making American purchases appears?

16

2. Will money rates in this country rise later in the year with Christmas demands for funds, so as to disturb the international rate relationships?

3. Is there likely to be increasing difficulty for Europe in meeting payments due in the United States?

4. Is there likelihood of speculation in stocks or commodities, using so large an amount of credit as to constitute a danger?

5. In view of these possibilities what flexibility in operations should be given the Open Market Committee?

CONFIDENTIAL

(4 - October 29, 1927)

Supplementary Note on Gold Earmarking

Since the preceding pages were written we have received instructions from a foreign correspondent to earmark 50 million dollars of gold for their account. This earmarking operation has precisely the same effect in withdrawing funds from the money market as the export of 50 million dollars of gold, or the sale of 50 million dollars of securities by the Reserve System. In order that this operation may not disturb the money market and defeat the policy we have been pursuing, the committee is undertaking to offset these earmarkings by a purchase of 50 million dollars of securities, so that the net result of the operation will be to leave the money market unaffected.

This transaction illustrates precisely what occurs when gold is earmarked. Under the instructions which have been received, 30 million dollars of the earmarked gold will be paid for by applying the proceeds of bankers acceptances now held for the account of this correspondent, which mature between now and November 11. The remaining 20 million will be paid for by funds to be deposited with the New York Reserve Bank by a number of the New York City banks, which hold balances for the account of this correspondent.

The procedure which we have agreed upon for the earmarking of gold results in our setting aside gold in the amounts and on the dates indicated below:

GOLD TO BE EARMARKED FOR FOREIGN CORRESPONDENT

Date		Proceeds Maturing Bills	To be received From New York Banks	Total
October	25	$10,000,000	$ 4,000,000	$14,000,000
	26		2,000,000	2,000,000
	27		2,000,000	2,000,000
	28		2,000,000	2,000,000
	31	5,000,000	2,000,000	7,000,000
November	1		2,000,000	2,000,000
	2	5,000,000	2,000,000	7,000,000
	3		2,000,000	2,000,000
	4		2,000,000	2,000,000
	7	5,000,000		5,000,000
	11	5,000,000		5,000,000
		$30,000,000	$20,000,000	$50,000,000

Should any of the payments from the New York banks be made in Clearing House funds, it would result in delaying one day the earmarking of gold.

It will be seen that, as the bills held for this correspondent mature, the market pays to the Federal Reserve Bank the amounts due, and that as these sums are applied to the purchase of gold and are not reinvested in the market they will constitute a loss to the market, reduce the reserves of the New York City banks, and (in the absence of offsetting operations) force those banks to increase their borrowings at the Federal Reserve Banks. Payments to the Reserve Bank by New York City banks have a precisely similar result. In order to maintain the present status quo it is necessary, therefore, to put 50 million dollars into the market to replace the 50 million dollars withdrawn by this earmarking operation. Securities are being purchased a little more slowly than gold is being earmarked and thus a daily test is made of market conditions.

At present the New York City banks owe the Federal Reserve Bank of New York about 90 million dollars, and this amount of borrowing will normally be increased somewhat as Christmas approaches. Any large extended increase in this borrowing would be followed inevitably by firmer money rates, and would imperil the policy which the Reserve System has been following.

One other phase of this earmarking operation is worthy of consideration. Exports and imports of gold from and into this country since the beginning of this year resulted in a net import of about 125 million dollars. If, however, earmarking operations are taken into account the net gain to the market through imports will, after the completion of this transaction, have been entirely offset by losses through the earmarking of gold. Thus the actual facts as to gold movements are quite contrary to the general belief based upon the published figures for gold exports and imports.

The same thing is true if we go back a few years. Since the autumn of 1924 the figures for gold imports and exports indicate a net movement to this country of about 100 million dollars, and it is the common impression that in the past three years we have been absorbing and sterilizing the world's gold. When earmarkings are taken into consideration, however, the past three years (including this current transaction) show a net loss of $50,000,000 of gold rather than a net gain.

In view of the important influence of gold movements upon money conditions, and the somewhat misleading character of statements which are now made public, it is believed that we should consider some weekly statement as to gold held under earmark. It is true that figures given out once a month by the Department of Commerce for the stock of gold in the United States do make allowance for earmarking, but these figures are published only once a month and some time after the event. The publishing of weekly figures for gold earmarkings would correct possible erroneous impressions and aid in a general public understanding of Federal Reserve policies.

#6

FEDERAL RESERVE BANK
OF ATLANTA

OFFICE OF
CHAIRMAN OF THE BOARD
FEDERAL RESERVE AGENT

September 3, 1927.

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

Dear Governor Crissinger:

At the regular meeting of our Board of Directors held on August 12th, Governor Wellborn presented a copy of the minutes of meeting of the Open Market Investment Committee, held with the Federal Reserve Board on July 27th, together with report of the Chairman of the Open Market Investment Committee; all of which you transmitted with your letter of July 27th, for the confidential information of our Board.

I was requested to express to the Federal Reserve Board the appreciation of our directors for the information contained in the communications, and to request, if consistent, that future reports of the Open Market Investment Committee be furnished by the Federal Reserve Board, when available, for the confidential information of the directors of this bank.

Very truly yours,

Oscar Newton

Chairman.

Rec'd file 10/2/27

No action

RECEIVED
AUG 10 1927
THE GOVERNOR

FEDERAL RESERVE BANK
OF RICHMOND

333-f-2
Board

August 9, 1927.

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

Dear Governor Crissinger:

Your letter of July 27th, addressed jointly to Governor Seay and me, and enclosing certain information for confidential presentation to our Board, was received during my absence on an inspection tour of certain branch banks. This is to advise you that your letter and its enclosures will be confidentially presented to our Board at our meeting day after tomorrow.

Very truly yours,

W. W. Hoxton

Wm. W. Hoxton,
Chairman of the Board
and Federal Reserve Agent

F

333.-b-2

FEDERAL RESERVE BANK

OF NEW YORK

July 28, 1927.

Board

My dear Governor Crissinger:

This will serve to acknowledge your favor of July 27 enclosing for our confidential information copy of the minutes of the meeting held in Washington on July 27. This report was read to our directors at their meeting to-day, and I may say gave much satisfaction.

7/27/27 filed 333.-b-2 Final Minutes

We all feel that it was a most enjoyable and constructive meeting, and that the action taken was greatly in the interest of the System and of the country.

Very truly yours,

Benj. Strong

Benj. Strong
Governor

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

BS/RAH

RECEIVED
JUL 29
OFFICE OF
THE GOVERNOR

333.-6-2

FEDERAL RESERVE BANK

OF RICHMOND

July 28, 1927.

Board

Dear Governor Crissinger:

We are inreceipt of your confidential letter of the 27th, addressed to myself and Mr. Hoxton, Chairman, jointly, accompanied by a copy of the report of the Open Market Investment Committee, the contents of which will be communicated to our directors at their next monthly meeting.

Very truly yours,

Geo. J. Seay

GJS-CCP

GEO. J. SEAY,
Governor.

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

Form

333-62

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE

WASHINGTON

The telegram given below is hereby confirmed.

2—9454 a
GPO

July 28, 1927

Bailey

Kansas City

Meeting disclosed that all favored action in New York and all governors present except Chicago propose to recommend similar action at their next board meeting with hope of favorable action as constituting a system policy. Of course members present could not pledge their boards of directors but propose to recommend it. Wired you last night to call will give you details by phone

telegram not in files

CRISSINGER

no acknowledgment in files

333-6

July 27, 1927

CONFIDENTIAL.

Gentlemen:

7-27-27

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. W. P. G. Harding, Governor,
Mr. F. H. Curtiss, Chairman,
Federal Reserve Bank,
Boston, Mass.

July 27, 1927

CONFIDENTIAL.

Gentlemen: 7/27/27

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. Benj. Strong, Governor,
Mr. Gates W. McGarrah, Chairman,
Federal Reserve Bank,
New York City, N. Y.

see ans 7/28/27

July 27, 1927

CONFIDENTIAL.

Gentlemen:

7/27/27

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. G. W. Norris, Governor,
Mr. R. L. Austin, Chairman,
Federal Reserve Bank,
Philadelphia, Pa.

July 27, 1937

CONFIDENTIAL.

Gentlemen:

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. E. R. Fancher, Governor,
Mr. Geo. DeCamp, Chairman,
Federal Reserve Bank,
Cleveland, Ohio.

July 27, 1927.

CONFIDENTIAL.

7/27/27

Gentlemen:

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. Geo. J. Seay, Governor, — See ans 7/28/27
Mr. Wm. W. Hoxton, Chairman, — See ans 8/9/27
Federal Reserve Bank,
Richmond, Va.

July 27, 1927

CONFIDENTIAL.

7/27/27

Gentlemen:

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. M. B. Wellborn, Governor,
Mr. Oscar Newton, Chairman, — See ans 9/3/27
Federal Reserve Bank,
Atlanta, Ga.

July 27, 1927

CONFIDENTIAL.

7/27/27

Gentlemen:

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. J. B. McDougal, Governor,
Mr. W. A. Heath, Chairman,
Federal Reserve Bank,
Chicago, Illinois.

July 27, 1927

CONFIDENTIAL.

Gentlemen:

7/27/27

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. D. C. Biggs, Governor,
Mr. Wm. McC. Martin, Chairman,
Federal Reserve Bank,
St. Louis, Mo.

July 27, 1927

CONFIDENTIAL.

Gentlemen:

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. R. A. Young, Governor,
Mr. J. R. Mitchell, Chairman,
Federal Reserve Bank,
Minneapolis, Minn.

July 27, 1927

CONFIDENTIAL.

Gentlemen:

7-27-27

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. W. J. Bailey, Governor,
Mr. M. L. McClure, Chairman,
Federal Reserve Bank,
Kansas City, Mo.

July 27, 1927.

CONFIDENTIAL.

Gentlemen:

7/27/27

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. Lynn P. Talley, Governor,
Mr. C. C. Walsh, Chairman,
Federal Reserve Bank,
Dallas, Texas.

333-6-

July 27, 1927

CONFIDENTIAL.

Gentlemen:

7-27-27

There is enclosed herewith for your information and for confidential presentation to the Board of Directors of your bank, a copy of the minutes of a meeting of the Open Market Investment Committee held today with the Federal Reserve Board, together with copy of the report of the Chairman of the Open Market Investment Committee, referred to therein.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. J. U. Calkins, Governor,
Mr. Isaac B. Newton, Chairman,
Federal Reserve Bank,
San Francisco, Calif.

333.-6-2

CONFIDENTIAL

July 27, 1927.

PRELIMINARY MEMORANDUM RELATIVE TO OPEN MARKET POLICY

The gold movements of the past two months have illustrated the need for preparedness on the part of the Federal Reserve System to deal with either gold exports or imports, which was emphasized in the Chairman's memorandum discussed at the last Governors' Conference. This year's gold movements have included the import of 130 million dollars of gold from abroad, the purchase of 62 million dollars abroad, the sale of 100 million dollars for earmarking here, and the resale of 60 million abroad. There has thus been an import movement, or its equivalent, of 190 million dollars and an export movement, or its equivalent, of 160 million dollars. Fortunately these two movements have largely offset each other in their influence on the domestic credit situation. Otherwise they might have occasioned embarrassment. These movements were largely unforeseen and unforeseeable, although at any time possible under present conditions.

Recent transactions in the special investment account have been largely for the purpose of dealing with these changes in gold. At one time, in May, the account was as low as 136 million dollars, and it has now been restored to 265 million dollars. The increase represents largely purchases to offset the earmarking of 100 million dollars of gold here, but includes in addition the purchase of about 30 million dollars of securities under the authority arranged at the time of the Governors' Conference. The following figures show the changes from week to week in the special investment account. It would appear that this portfolio should be increased from time to time when favorable opportunity offers, if the system is to be in a position to meet future extraordinary gold movements.

April	27	$201	millions
May	4	200	"
"	11	136	"
"	18	152	"
"	25	188	"
June	1	222	"
"	8	316	"
"	15	246	"
"	22	250	"
"	29	250	"
July	6	250	"
"	13	250	"
"	20	265	"

A temporary increase in the account in ordinary course may be involved in replacing 56 million of maturities in September which includes 30 million taken over from a foreign account in exchange for March certificates. It may be necessary to take over further amounts of securities from foreign correspondents.

The Credit Situation

A number of important changes have taken place in the domestic and foreign credit situation since the Governors' Conference. These may be summarized as follows:

1. Money rates abroad have risen vigorously; open market money rates in London, Berlin, Zurich, and a number of other centers are markedly higher than they were three months ago. The Reichsbank and the Bank of Austria have raised their discount rates. Open market money rates are close to or above the bank rate in London, Berlin, Zurich, Amsterdam, and Milan, as shown in an attached table. These firmer money conditions are undoubtedly exerting continuing pressure upon world trade and world prices, which is liable to react unfavorably upon our own trade and prices.

2. There has been some reduction in business activity in this country, not serious, but indicating a spirit of great caution in business.

3. There has been some congestion of the bond market, due largely to undigested new issues. This situation has been partially corrected.

4. Due largely to reduced industrial payrolls there has been

a slight reduction in the past few weeks in the credit and currency demand, and total bills and securities of the Reserve System have dipped below one billion dollars. The New York Reserve Bank gained 50 million last week in transfers from the interior and New York City member bank borrowing was correspondingly reduced.

5. There is growing ease in money conditions, although some rates are still slightly higher than a year ago, due probably to a higher discount rate at the New York Reserve Bank. Current quotations for money are as follows compared with last year.

	A Year Ago	July 23, 1927
Call money	4	3 3/4
90-day time money	4 1/2	4 3/8
Commercial paper	4	4 1/4
90-day bills	3 3/8	3 1/2
Treasury Issues		
Dec. maturity (notes)	3.03	2.87
Mar. " (C of I)	3.31	3.19
Discount Rate N.Y. F.R.B.	3 1/2	4

The Prospect for Autumn

Normally the approaching seasonal demand for funds might be expected to tighten money conditions somewhat. If this takes place it would have the result (1) of increasing the pressure on world money markets and perhaps forcing up the Bank of England discount rate, and certain of the Continental discount rates, with consequent unfavorable reaction upon world trade and prices; (2) of accentuating the existing tendency towards some reduction in business activity.

If on the other hand steps should be taken which would prevent any seasonal increase in money rates, and tend rather towards somewhat easier money conditions, the following results might be anticipated:

1. An easing of the pressure upon world money markets, which would react favorably upon world trade. The results would be felt partly through the tendency for balances to move in the direction of the highest rate, and partly as lower bill rates here would attract financing to our bill market which might otherwise go to

London and require funds there.

2. Coming at the crop moving season easier money conditions would tend to facilitate the marketing of the crops at favorable prices.

3. It would tend to remove any credit pressure which may now be exerted upon business, and would encourage business enterprise.

4. There would on the other hand be danger that easier money might encourage speculation. The spirit of business is so cautious that it seems doubtful whether speculative tendencies in business would easily arise, but it is probable that easier money would stimulate speculation in securities.

If under these circumstances it should seem wise to follow a policy favoring easier money conditions, the immediate problems would be (1) to localize the effects of easier money conditions, where they would be most beneficial; and (2) to prevent excessive speculation or excessive growth in the volume of credit.

In this connection the attached table shows the total bills discounted at Federal Reserve Banks in the 12 districts. The total is nearly 100 million smaller than it was a year ago and the decreases in bills discounted exceed 25 per cent in the New York, Richmond, Minneapolis, Kansas City, and Dallas districts.

Total Bills Discounted by Federal Reserve Banks
(in millions of dollars)

	Week Ended	
	July 21, 1926	July 20, 1927
Boston	24	32
New York	126	87
Philadelphia	44	42
Cleveland	35	28
Richmond	43	19
Atlanta	44	37
Chicago	56	55
St. Louis	35	33
Minneapolis	8	6
Kansas City	17	11
Dallas	18	8
San Francisco	45	45
Total	495	403

Money Rates in World Markets

		July 1926	May 1927	July 1927
London	- Market Rate	4.25	3.69	4.31
	Discount Rate	5	4.5	4.5
Berlin	- Market Rate	4.5	4.88	5.88
	Discount Rate	6	5	6
Paris	- Market Rate	6	2.25	2.13
	Discount Rate	6	5	5
Amsterdam	- Market Rate	2.76	3.5	3.5
	Discount Rate	3.5	3.5	3.5
Brussels	- Market Rate	6.70	4.25	3.75
	Discount Rate	7	5.5	5
Zurich	- Market Rate	2.31	3.13	3.81
	Discount Rate	3.5	3.5	3.5
Milan	- Market Rate	8.5	9.25	8
	Discount Rate	7	7	7
Vienna	- Market Rate	6	5.38	5.75
	Discount Rate	7.5	6	7
New York	- Bill Rate	3 3/8	3 5/8	3 1/2
	Discount Rate	3 1/2	4	4

333.-6-2

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

49gm

StLouis 941a Jul 22 1927

Crissinger

Washington

Arranging to attend meeting in Washington July twenty seventh as per your letter of the twentieth.

Biggs

1055a

2—11901

see telegram 7/20/27

TELEGRAM

333.-b-2

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

69gn

Minneapolis 953a July 22 1927

Crissinger

Washington

Acknowledging receipt of your letter July 20 and at the same time advising you that I will be very glad to sit in at the conference on July 27.

Young

1109a

see telegram 7/20/27

333.-b-2
7/21/27

FEDERAL RESERVE BOARD
WASHINGTON

OFFICE OF GOVERNOR

July 22, 1927

My dear Mr. Cunningham:

I have your letter from Cresco, dated July 20, and note what you say about wiring. So far as I can see at this time, this meeting is only going to talk about rates and I have a very distinct understanding of what you desire in connection with the rate question, so that your written statement, I should think, is all that would be necessary. Of course, Governor Strong's standpoint - and he has developed it through our foreign friends - will be interesting, but the ultimate end will be as to what we can do with the rates, and in that respect I am sure you feel that if it were thought necessary to lower, you would be in favor of it.

Of course, I would like to have you present if you want to be troubled with the trip, but it seems to me that if I were in your place and felt about the situation as you do, and having a clear idea of what is going on as you do, I would not trouble myself with an extra trip back. However, I should like you to have full information and to govern your conduct accordingly. There will be a quorum of the Board here without you so that from that standpoint it will not be necessary for you to return.

I hope you will have a pleasant vacation and am pleased to learn that the corn crop looks better than you thought it would. With my sincere regards, I am

Sincerely yours,

D R Crissinger

D. R. Crissinger,
Governor.

Mr. E. H. Cunningham,
Route No. 5,
Cresco, Iowa.

July 22, 1927

My dear Mr. Cunningham:

I have your letter from Cresco, dated July 20, and note what you say about wiring. So far as I can see at this time, this meeting is only going to talk about rates and I have a very distinct understanding of what you desire in connection with the rate question, so that your written statement, I should think, is all that would be necessary. Of course, Governor Strong's standpoint - and he has developed it through our foreign friends - will be interesting, but the ultimate end will be as to what we can do with the rates, and in that respect I am sure you feel that if it were thought necessary to lower, you would be in favor of it.

Of course, I would like to have you present if you want to be troubled with the trip, but it seems to me that if I were in your place and felt about the situation as you do, and having a clear idea of what is going on as you do, I would not trouble myself with an extra trip back. However, I should like you to have full information and to govern your conduct accordingly. There will be a quorum of the Board here without you so that from that standpoint it will not be necessary for you to return.

I hope you will have a pleasant vacation and am pleased to learn that the corn crop looks better than you thought it would. With my sincere regards, I am

Sincerely yours,

D. R. Crissinger,
Governor.

Mr. E. H. Cunningham,
Route No. 5,
Cresco, Iowa.

see telegram 7/22/27

Form 1206-A

CLASS OF SERVICE DESIRED			
DOMESTIC		CABLE	
TELEGRAM	X	FULL RATE	
DAY LETTER		DEFERRED	
NIGHT MESSAGE		CABLE LETTER	
NIGHT LETTER		WEEK END LETTER	

Patrons should check class of service desired; otherwise message will be transmitted as a full-rate communication.

WESTERN UNION

NEWCOMB CARLTON, PRESIDENT J. C. WILLEVER, FIRST VICE-PRESIDENT

NO.	CASH OR CHG.
CHECK	333.-6-2
TIME FILED	

Send the following message, subject to the terms on back hereof, which are hereby agreed to

July 22, 1927
3.15 p.m.

Mr. E. H. Cunningham
Route No. 5
Cresco, Iowa. See 7-22-27

Letter tonight. Unless you desire to hear discussions it now seems it would not be necessary for you to return. If anything develops by Monday will wire again. Letter explains purpose.

D. R. Crissinger

Official business
Chg. Federal Reserve Board
Govt rate.

see letter 7/22/27
see letter 7/20/27

TELEGRAM

#10

FEDERAL RESERVE SYSTEM
(LEASED WIRE SERVICE)

333-6-2

RECEIVED AT WASHINGTON, D. C.,

150gu12

Kansascity jul 21 1145a 1927

Governor Crissinger

Washington

Your wires twentieth.

Am arranging to be Washington Tuesday morning.

Bailey

1253p

2—11901

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date July 20, 1927

To Messrs. James, Platt and McIntosh

From Mr. [illegible]

Subject: 333-6
333

2—8495
GPO

Suspense 7/26
Meeting 7/27/27
7/18/19/20

This is to advise you that a meeting of the Board with the Open Market Investment Committee has been called for Wednesday, July 27th.

Treasury Department

WESTERN UNION TELEGRAM
2—3786

Telegraph Office

333,-6-2

80W K 13 COLLECT GVT

YDNB MATTAPOISETT MASS 143P JUL 20 1927

GOVERNOR CRISSINGER

7/20/27 date FEDERAL RESERVE BOARD WASHINGTON

TELEGRAM RECEIVED WILL BE IN WASHINGTON NEXT MONDAY MORNING FOR THE WEEK

C S HAMLIN

214P

recd - July 20-27
333.-6-2
7/20/27

Dear Govenor:- 7/20/27

Yours wire just to hand

If you think it advisable for me to attend the meeting scheduled with the Open Market Committee July 27th you can wire me not later than the 25th and I will return in time for the meeting.

The corn situation is better in Iowa than we had been led to believe. While it will not be a maximum yield it will be much better than has been reported. It really looks better than either Ohio or Indiana.

Dont fail to wire if you feel that I should be at the meeting. I did not look for action so early but realize that the situation was rather uncertain if not critical.

Yours Truly

E. J. Cunningham

see ans 7/22/27

CLASS OF SERVICE DESIRED	
TELEGRAM	X
DAY LETTER	
NIGHT MESSAGE	
NIGHT LETTER	

Patrons should mark an X opposite the class of service desired; OTHERWISE THE MESSAGE WILL BE TRANSMITTED AS A FULL-RATE TELEGRAM

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

Form 1206A

NO.	CASH OR CHG
CHECK	
TIME FILED	

Send the following message, subject to the terms on back hereof, which are hereby agreed to

Washington D C July 20 1927

Hon. E. H. Cunningham
Route No. 5 see ans
Cresco Iowa 7/20/27

Hon. A. C. Miller for ans
Chateau Lake Louise see
Lake Louise. 333.3
Alberta, Canada. 7/26/27

Hon. Chas. S. Hamlin
Mattapoisett. Mass.
see ans 7/20/27

Meeting Board with Governors' Committee called for July twenty-seventh.

Crissinger

Official business
Chg. Federal Reserve Board
Govt rate

333.-6-2

July 20, 1927.

My dear Governor:

I have written Governors Young,* Biggs and Bailey from the agricultural West, inviting them to be present at the meeting on July 27, leaving it optional with them.

Very truly yours,

D. R. Crissinger,
Governor.

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

* See letters 7-20-27

TELEGRAM

140gu 9

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

333-6-2

Stlouis 1120a jul 20 1927

RECEIVED AT WASHINGTON, D. C.,

Crissinger

Washington

Will be present at meeting in Washington on July twenty seventh. Planning to sail from Newyork on thirty first with a party of friends on the Aquitania to be abroad only one week. Wish you would arrange to join us.

D C Briggs

1240p

GOVERNMENT PRINTING OFFICE 2—11901

see telegram 7/20/27

333.-6-2

July 20, 1927

My Dear Governor:

I have called a meeting of the Open Market Committee for Wednesday, July 27, to be held in the Board room in Washington. It is expected that all of the members of the Open Market Committee will be here.

I am inviting you to be present at this meeting and hope that it will be convenient and agreeable for you to attend. There are some matters of broad policy which are to be discussed. Of course, this is not an order for you to come, but if you would enjoy sitting in at this meeting, I would be greatly pleased to have you.

Upon receipt of this letter, kindly wire me whether or not you intend to come.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. D. C. Biggs, Governor,
Federal Reserve Bank,
St. Louis, Mo.

see ans 7/22/27

Form 148

TELEGRAM

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE

WASHINGTON

333.-62

2—9454
GPO

July 20, 1927

Biggs

St. Louis

Inviting you to be present at meeting in Washington on July 27. Letter following.

CRISSINGER

see ans 7/22/27
see ans 7/20/27

333-6

July 20, 1927

My Dear Governor:

I have called a meeting of the Open Market Committee for Wednesday, July 27, to be held in the Board room in Washington. It is expected that all of the members of the Open Market Committee will be here.

I am inviting you to be present at this meeting and hope that it will be convenient and agreeable for you to attend. There are some matters of broad policy which are to be discussed. Of course, this is not an order for you to come, but if you would enjoy sitting in at this meeting, I would be greatly pleased to have you.

Upon receipt of this letter, kindly wire me whether or not you intend to come.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. R. A. Young, Governor,
Federal Reserve Bank,
Minneapolis, Minn.

see ans 7/22/27

For 148

TELEGRAM
FEDERAL RESERVE BOARD
LEASED WIRE SERVICE
WASHINGTON

2—9454
GPO

333-6

July 20, 1927

Young

Minneapolis

Inviting you to be present at meeting in Washington on July 27. Letter following.

GRISSINGER

see ans 7/22/27

333-6-2

July 20, 1927.

My Dear Governor:

I have called a meeting of the Open Market Committee for Wednesday, July 27, to be held in the Board room in Washington. It is expected that all of the members of the Open Market Committee will be here.

I am inviting you to be present at this meeting and hope that it will be convenient and agreeable for you to attend. There are some matters of broad policy which are to be discussed. Of course, this is not an order for you to come, but if you would enjoy sitting in at this meeting, I would be greatly pleased to have you.

Upon receipt of this letter, kindly wire me whether or not you intend to come.

Very truly yours,

D. R. Crissinger,
Governor.

Mr. W. J. Bailey, Governor,
Federal Reserve Bank,
Kansas City, Mo.

Form 148

TELEGRAM

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE
WASHINGTON

333. 6-2

2—9454
GPO

July 20, 1927

Bailey

Kansas City

It may be desirable for you to be here Tuesday morning so if desired you can return to your Board meeting on Thursday.

CRISSINGER.

All ans 7/21/27

Form 148

TELEGRAM

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE
WASHINGTON

333.-6-2

2—9454
GPO

July 20, 1927

Bailey

Kansas City

Inviting you to be present at meeting in Washington on July 27. Letter following.

CRISSINGER

Rec ans 7/21/27

332-6

July 20, 1927.

My dear Governor:

I would suggest Wednesday, July 27, as a proper date for the Open Market Committee. I do not know how many members of the Board will be here, but I believe Mr. Platt will have returned by that time, and, if necessary, we can have Mr. Hamlin run down from Boston. Mr. James and I will be here.

Very truly yours,

D. R. Crissinger,
Governor.

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

see letter 7/19/27

FEDERAL RESERVE BANK

OF NEW YORK

Bd Bd

333-6-2

July 19, 1927.

My dear Governor Crissinger:

After a good deal of reflection I am hesitating a good deal about making a trip west. It would be most fatiguing during the hot weather and, as you realize, there is always some possibility of a misunderstanding and other unfavorable reactions.

The action taken by the Board on the recommendations of the Open Market Investment Committee made in May suggests the need for a meeting of the committee the latter part of this month, and I am wondering whether this may not be a substitute for our trip. Would you advise me in reply on what date we could expect to find the members of the Board available in Washington for a discussion toward the very end of this month and I will communicate with the members of the committee to see whether a meeting can be arranged.

Things are very quiet here. Money has shown an easing tendency and we are now making no further purchases beyond the $15,000,000 already reported.

Very truly yours,

Benj. Strong

Benj. Strong
Governor

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

see ans 7/20/27

Form No. 181.

Office Correspondence

FEDERAL RESERVE BOARD

Date May 27, 192_

To All Members of the Board

Subject: 333.-6-2

From Mr. Eddy

2—8405 GPO

At the meeting this morning, there was ordered circulated the attached letter dated May 24th from the Secretary of the Governors' Conference transmitting copy of the minutes of the meeting of the Open Market Investment Committee held in Washington on May 9th, 11th and 12th.

5-9-24 filed 333.-6-2 Final Minutes

Governor Crissinger
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. McIntosh

Please circulate promptly and return to Secretary's office.

333.-6-2

May 27, 1927.

Dear Mr. Harrison:

Receipt is acknowledged of your letter of May 24th, addressed to Governor Crissinger, enclosing copy of the minutes of the meetings of the Open Market Investment Committee, held in Washington on May 9th, 11th, and 13th. 5/9/27 filed 333.-6-2 Formal minutes

Very truly yours,

Walter L. Eddy,
Secretary.

Mr. Geo. L. Harrison, Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

333.-b-2

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
MAY 2 1927
OFFICE OF
THE GOVERNOR

May 24, 1927

CONFIDENTIAL

Dear Governor Crissinger:

I am enclosing herewith for your confidential information a copy of the minutes of the meetings held 5-9-27 filed 333.-b-27 ... by the Open Market Investment Committee in Washington on May 9, May 11, and May 12. I am also enclosing a copy of the preliminary memorandum relative to open market policy, which was submitted to the Governors Conference in connection with the report of the committee.

Very truly yours,

George L. Harrison
George L. Harrison
Secretary, Governors Conference

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

Encls.

Ordered Circulated
AT BOARD MEETING
MAY 27 1927

see ans 5/27/27

Report of Open Market Com. itte to Fed. Reserve Board

333.-6-2

May 11, 1927.

5/9/27

The Open Market Committee, after considering the attached memorandum, and after discussion with the Federal Reserve Board, submits the following recommendations of policy for the period ending August 1 next:

(1) That no further sales of System securities be made in order to offset arrivals of gold from abroad now known or anticipated.

(2) That it shall be the policy of the committee between now and August 1 next, gradually to acquire, if possible to do so without undue effect upon the money market, sufficient additional short-time government obligations to bring the total of the committee's investment account up to $250,000,000. In interpreting the expression "undue effect upon the money market," the committee would expect to keep in mind any changes which might occur in the general level of money rates, as well as the extent to which these purchases might effect a reduction in the amount of borrowings by member banks.

While this policy is not directed towards bringing about a reduction in discount rates by any Federal reserve bank, nor is that immediately anticipated, it is recognized that some lowering of market rates for money might nevertheless justify such a reduction later in the year, especially at the principal financial centers. The recommendation in paragraph two is also made after consideration of the fact that somewhat lower interest rates ordinarily operate to check gold imports; in fact, that was one of the effects of purchases of securities made in 1924.] See Minutes

The committee further expects to continue studies of those methods set out in the preliminary memorandum by which increases in the System's portfolio might be brought about without increasing the amount of Federal reserve credit in the market. It expects to discuss with the Treasury Department those methods with which the Treasury is concerned, and requests that the Federal Reserve Board give consideration to those particular items, such as reserves on time deposits, which relate to the regulations of the Federal Reserve Board.

CONFIDENTIAL

333.-6-2

May 9, 1927.
Revised copy May 11.

PRELIMINARY MEMORANDUM RELATIVE TO OPEN MARKET POLICY

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

General Credit Situation

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

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

copy filed ~~333.3~~ 333.-6-1

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

The figures for Reserve System earning assets are as follows:

(in millions)

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

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

(table)

Money rates at New York

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

* Prevailing rate for preceding week.

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

(1) That the general level of interest rates in New York, where changes of rates generally originate, is about 1/2 of one per cent. above last year, the discount rate of the Federal reserve bank also being 1/2 of one per cent. higher.

(2) The amount of bank credit employed for conducting the country's business, at a volume certainly much above the average of the last few years, is only $1,500,000,000 above what it was last year.

(3) While irregularly distributed between the classes of goods, the general level of commodity prices has experienced a considerable fall, and over the greater part of the past year the decline in prices has been in both agricultural and non-agricultural commodities. Considering the reluctance of member banks to borrow from the Reserve banks, coupled with the considerable decline in interest rates which is occurring in Europe, the question is raised as to whether the somewhat greater restraint now being applied to the extension of credit at the money center (New York), coupled with the reduction of the total of the open market investment account over the past 18 months or two years from $500,000,000 to less than $200,000,000, has not gradually had the effect of exercising some pressure, imperceptible in any change over a short period, but now becoming apparent when examined as to its effects over a longer period.

Gold Movements

Between January 1 and May 1 of this year, gold imports into the United States have amounted to about $110,000,000, including $8,000,000 from Japan, and exports during the same period were $26,000,000. Net imports during this period were therefore $84,000,000. Inasmuch as approximately $14,000,000 of the gold exported was gold which had been earmarked before the period under discussion, about $98,000,000 was the net amount added to the monetary gold supply of the country during the first four months of the year. This gold movement, together with the imports of 1926, account largely for the fact that the System's earning assets show a decline during the past year, in spite of an increase of some billion and a half dollars in bank credit.

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

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

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

(1) The committee could replace the securities sold to the Bank of France. The immediate effect would be to reduce the amount of member

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

(2) Those Federal reserve banks which have considerable holdings of long time bonds could dispose of those bonds, realize their profit and repurchase through the committee as a part of the committee's account, an equivalent amount of short time securities. These, with other short term government securities owned by individual Reserve banks, could be added to the System holdings without reducing the total earning assets of the individual Reserve banks, and thus increase the committee's account to over $200,000,000.

(3) Arrangements might be made with the Secretary of the Treasury for somewhat increasing balances carried with the Federal reserve banks, and reducing the amount carried with special depository banks.

(4) Some or all of the $75,000,000 of 2 per cent. Panama Canal bonds could be called and the national bank notes issued against them retired. Further purchases of the 2 per cent. Consols of 1930 could be made in anticipation of their possible retirement in 1930, as contemplated by the Secretary of the Treasury in his report of 1924.

(5) By gradual stages, or all at once, the time schedule of the Par Collection System could be adjusted so as to increase the volume of uncollected checks and correspondingly reduce the reserve of members.

(6) Plans could be undertaken for retiring the greenbacks, which however would require legislation.

(7) Further amounts of the capital of the Federal reserve banks could be called.

(8) The reclassification of reserve cities could be gradually undertaken so as to increase reserve requirements.

(9) A readjustment of the relations of the Reserve banks to the market for gold could be effected if the Secretary of the Treasury saw fit

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

(10) The Federal Reserve Board, of course, after adequate study, could revise the definition of what constitutes a time deposit, thus raising the reserve requirements. This is probably justified by the fact that something like 60 per cent. of the increase in bank deposits in the United States over the past ten years consists of that class of deposits which require only 3 per cent. reserve.

(11) A revision of the regulations of the Federal Reserve Board in relation to the maintenance of reserves, by averaging reserves for a period of a week in Federal reserve bank cities, and two weeks in the rest of the country, could have the practical effect of somewhat increasing the amount which member banks must borrow.

(12) The Federal Reserve Board could revise its ruling relative to currency in transit, which in effect reduces reserve requirements in those districts where the ruling is now applied.

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

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

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

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

(2) The fact that our technical practice in dealing with gold makes this the best market in which to sell it and one of the most difficult from which to export it.

(3) The possibility, regarded by some as the probability, that within the next two years Germany will be forced to ship us large amounts of gold in order to meet reparation payments in the standard year.

(4) Heavy foreign payments to meet the service on all foreign loans.

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

Gold exports from this country can arise from two causes:

(1) The first is the perfectly normal movement resulting from exchange rates reaching a level at which it is cheaper to make payments abroad by shipping gold than by buying exchange.

(2) The other, however, can occur irrespective of the gold shipping point, because of large balances held in this country for account of foreign governments and foreign banks of issue, which, as in the case of Germany, may decide to take gold for reserve purposes, irrespective of the gold point.

No danger need be apprehended as to a normal export of gold, but we might sustain a large loss of gold under the second category at any time, and that we are now prepared to deal with successfully because of the large proportion of such balances held by the Federal reserve bank, the export of which could easily be provided for by our purchasing the securities now held for account of our foreign correspondents. The only embarrassment likely to occur as a result of such a demand will be due to the lack of an adequate supply of American gold coin, concerning which discussion has been had from time to time with the Treasury.

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

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

333-6-2

May 9, 1927.

Revised Copy May 11

PRELIMINARY MEMORANDUM RELATIVE TO OPEN MARKET POLICY

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

General Credit Situation

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

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

Submitted

Copy filed ~~333.3~~ 333-6-1

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

The figures for Reserve System earning assets are as follows:

(in millions)

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

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

Money rates at New York

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

* Prevailing rate for preceding week.

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

(1) That the general level of interest rates in New York, where changes of rates generally originate, is about 1/2 of one per cent, above last year, the discount rate of the Federal reserve bank also being 1/2 of one per cent. higher.

(2) The amount of bank credit employed for conducting the country's business, at a volume certainly much above the average of the last few years, is only $1,500,000,000 above what it was last year.

(3) While irregularly distributed between the classes of goods, the general level of commodity prices has experienced a considerable fall, and over the greater part of the past year the decline in prices has been in both agricultural and non-agricultural commodities. Considering the reluctance of member banks to borrow from the Reserve banks, coupled with the considerable decline in interest rates which is occurring in Europe, the question is raised as to whether the somewhat greater restraint now being applied to the extension of credit at the money center (New York), coupled with the reduction of the total of the open market investment account over the past 18 months or two years from $500,000,000 to less than $200,000,000, has not gradually had the effect of exercising some pressure, imperceptible in any change over a short period, but now becoming apparent when examined as to its effects over a longer period.

Gold Movements

Between January 1 and May 1 of this year, gold imports into the United States have amounted to about $110,000,000, including $8,000,000 from Japan, and exports during the same period were $26,000,000. Net imports during this period were therefore $84,000,000. Inasmuch as approximately $14,000,000 of the gold exported was gold which had been earmarked before the period under discussion, about $98,000,000 was the net amount added to the monetary gold supply of the country during the first four months of the year. This gold movement, together with the imports of 1926, account largely for the fact that the System's earning assets show a decline during the past year, in spite of an increase of some billion and a half dollars in bank credit.

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

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

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

(1) The committee could replace the securities sold to the Bank of France. The immediate effect would be to reduce the amount of member

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

(2) Those Federal reserve banks which have considerable holdings of long time bonds could dispose of those bonds, realize their profit and repurchase through the committee as a part of the committee's account, an equivalent amount of short time securities. These, with other short term government securities owned by individual Reserve banks, could be added to the System holdings without reducing the total earning assets of the individual Reserve banks, and thus increase the committee's account to over $200,000,000.

(3) Arrangements might be made with the Secretary of the Treasury for somewhat increasing balances carried with the Federal reserve banks, and reducing the amount carried with special depository banks.

(4) Some or all of the $75,000,000 of 2 per cent. Panama Canal bonds could be called and the national bank notes issued against them retired. Further purchases of the 2 per cent. Consols of 1930 could be made in anticipation of their possible retirement in 1930, as contemplated by the Secretary of the Treasury in his report of 1924.

(5) By gradual stages, or all at once, the time schedule of the Par Collection System could be adjusted so as to increase the volume of uncollected checks and correspondingly reduce the reserve of members.

(6) Plans could be undertaken for retiring the greenbacks, which however would require legislation.

(7) Further amounts of the capital of the Federal reserve banks could be called.

(8) The reclassification of reserve cities could be gradually undertaken so as to increase reserve requirements.

(9) A readjustment of the relations of the Reserve banks to the market for gold could be effected if the Secretary of the Treasury saw fit

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

(10) The Federal Reserve Board, of course, after adequate study, could revise the definition of what constitutes a time deposit, thus raising the reserve requirements. This is probably justified by the fact that something like 60 per cent. of the increase in bank deposits in the United States over the past ten years consists of that class of deposits which require only 3 per cent. reserve.

(11) A revision of the regulations of the Federal Reserve Board in relation to the maintenance of reserves, by averaging reserves for a period of a week in Federal reserve bank cities, and two weeks in the rest of the country, could have the practical effect of somewhat increasing the amount which member banks must borrow.

(12) The Federal Reserve Board could revise its ruling relative to currency in transit, which in effect reduces reserve requirements in those districts where the ruling is now applied.

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

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

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

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

(2) The fact that our technical practice in dealing with gold makes this the best market in which to sell it and one of the most difficult from which to export it.

(3) The possibility, regarded by some as the probability, that within the next two years Germany will be forced to ship us large amounts of gold in order to meet reparation payments in the standard year.

(4) Heavy foreign payments to meet the service on all foreign loans.

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

Gold exports from this country can arise from two causes:

(1) The first is the perfectly normal movement resulting from exchange rates reaching a level at which it is cheaper to make payments abroad by shipping gold than by buying exchange.

(2) The other, however, can occur irrespective of the gold shipping point, because of large balances held in this country for account of foreign governments and foreign banks of issue, which, as in the case of Germany, may decide to take gold for reserve purposes, irrespective of the gold point.

No danger need be apprehended as to a normal export of gold, but we might sustain a large loss of gold under the second category at any time, and that we are now prepared to deal with successfully because of the large proportion of such balances held by the Federal reserve bank, the export of which could easily be provided for by our purchasing the securities now held for account of our foreign correspondents. The only embarrassment likely to occur as a result of such a demand will be due to the lack of an adequate supply of American gold coin, concerning which discussion has been had from time to time with the Treasury.

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

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

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date March 29, 1927.

To All members of the Board.

Subject: 333.-6-2

From Mr. Eddy.

2—8495 GPO

At the meeting this morning, there was ordered circulated the attached letter from the Secretary of the Open Market Investment Committee, enclosing a copy of the minutes of the meeting of the Committee held in Washington on March 21st, together with copies of the reports of the Chairman and Secretary with accompanying exhibits. 3-24-27 3-21-27 filed 333.-6-2 Final minutes

Governor Crissinger
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. James
Absent Mr. Cunningham
Mr. McIntosh

Please return to Secretary's Office.

333.-6-2

FEDERAL RESERVE BANK

OF NEW YORK

CONFIDENTIAL

March 24, 1927

Sir:

3-21-27 filed 333.-6-2
Final minutes

I am enclosing copy of the minutes of the meeting of the Open Market Investment Committee held in Washington, March 21, 1927, also copy of the Chairman's and Secretary's reports with accompanying exhibits.

Respectfully,

W. B. Matteson
Secretary, Open Market
Investment Committee

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

Encls. (3)

Ordered Circulated
AT BOARD MEETING
MAR 29 1927

see ans 3/29/27

333-6-2

March 29, 1927.

Dear Mr. Matteson:

Receipt is acknowledged of your letter of March 24th, addressed to Governor Crissinger, enclosing a copy of the minutes of the meeting of the Open Market Investment Committee held in Washington on March 21st, and also copies of the Chairman's and Secretary's reports with accompanying exhibits. 3-21-27 filed 333.-6-2 Final Minutes

Very truly yours,

Walter L. Eddy,
Secretary.

Mr. W. B. Matteson, Secretary,
Open Market Investment Committee,
Federal Reserve Bank,
New York, N.Y.

epared by

C O P Y

333.-6-2

REPORT OF THE ACTING CHAIRMAN TO THE OPEN MARKET INVESTMENT COMMITTEE AT WASHINGTON, MARCH 21, 1927.

The secretary's report gives the details of operations in the special investment account since the last meeting of the committee. Beyond the shifting of securities, in order to accommodate the Treasury and foreign correspondents, the principal change in the account has been a decrease of $25,000,000 in the open market account and a decrease of $50,000,000 in the volume of Government securities held for foreign correspondents due to maturities of March 15 certificates which has had the effect of withdrawing about $75,000,000 from the market. It will be desirable at this meeting to determine whether or not these securities should be replaced.

Before discussing this question, however, it may be well to review briefly the December and March money market situations and the open market policies related thereto.

End of the Year Situation

In view of the experience at the end of 1925, careful consideration was given to the avoiding of such a period of stringent money as appeared at that time, and such large borrowing by a few member banks. The principal steps taken were to discuss the problem thoroughly with a number of the large member banks in New York City and to make every effort to invest the Treasury balance after the tax day, so that no large Treasury balance would be built up. For a time it was feared that it would not be possible to avoid a large Treasury balance and open market purchases were contemplated. It proved, however, possible to reach the end of the year with only a normal Treasury balance, and as a consequence of this and the cooperation of the member banks in showing willingness to appear in debt at the Reserve Bank at the end of the year, there was no marked stringency of money.

March 15, Tax Period

The March 15 tax period was extraordinary in the very large amount of maturities to be redeemed in cash. Maturities of approximately 660 million dollars plus interest payments of approximately 95 million dollars, resulted in a large immediate net gain to the market, which was only partly offset by a Treasury call of 123 million and income tax check collections. The consequence was a larger Treasury overdraft and a larger gain to the market than has taken place for several years. The gain to the New York market on March 15 through these transactions was over $300,000,000.

The taking up in some way of this large volume of surplus funds in the market was an acute problem. A number of the banks in New York City fortunately anticipated this situation and allowed their reserves to remain about 23 million in deficit for the Saturday, Sunday, and Monday preceding March 15. Thus they entered the tax day with an accumulated deficit in their reserves of 69 million dollars. The following methods were then used to offset large Treasury payments by the liquidation of Federal Reserve assets:

(1) $ 75,000,000 of United States securities in the System and foreign accounts were allowed to run off. (Those held in foreign accounts were replaced by bills from our portfolio.)

(2) $ 25,000,000 of sales contracts were taken out by dealers.

(3) $ 65,000,000 of discounts were taken out by member banks.

(4) $ 10,000,000 of securities were sold temporarily for one day on March 14th from the special investment account.

(5) $ 63,000,000 of participations in the Treasury one-day certificates were sold to member banks.

Total $238,000,000 - This, together with the aforementioned $69,000,000 deficit, provided an effective offset to the $300,000,000 excess reserves.

The sale of participations in the one-day certificate was a new method of withdrawing funds from the market. It avoided taking away earning assets from the other Federal Reserve Banks, even temporarily, as sales from the special investment account would have done; it avoided the complicated bookkeeping which that transaction involves; and constituted a simple and logical means of off-setting Treasury payments into the market.

As a consequence of the use of these different methods for removing surplus funds from the market, money remained reasonably steady all week and call money only dipped under 4 per cent on the exchange for a few hours on March 16. By Friday the banks were deficient in their reserves and found it necessary to increase their borrowing from the Reserve Bank to $150,000,000. Thus at the close of the week the money situation was restored to approximately the same position as before the tax period, but the Treasury still had an overdraft of $70,000,000 which is still to come out of the market.

Replacement of March 15 Maturities

The present outlook is for moderately firm money conditions, as the market settles down after the tax period. Business is active. The security markets are using more credit. Further large gold imports seem unlikely for the present.

If this anticipation is correct, the country will require currently, as in early March, over one billion dollars of Federal Reserve credit. But there will be a difference in the makeup of this credit, because foreign correspondents replaced about 50 million dollars of securities matured on March 15 with bills, and the bill holdings of the system will probably be reduced to something about that amount and the borrowings by member banks increased. The effect of this operation will be the same as a sale of securities.

Under these conditions borrowing by member banks throughout the country will be around 400 to 500 million dollars and by member banks in New York City upwards of 100 million dollars, and the call rate will be a firm 4 per cent, or possibly higher, even if the 75 million of securities in the system and foreign accounts, which matured March 15, are replaced. If, however, these are not replaced, about 75 million dollars additional of member bank borrowing will be required and call rates will be nearer 4 1/2 or 5 than 4 per cent.

The principal argument for reducing our security portfolio, by not replacing the maturities, is that the security market is very active and using more credit, and firmer money conditions will tend to keep speculation within bounds.

The principal arguments for maintaining our security portfolio by replacing the maturities are:

1. A portfolio of securities is a protection against inflation, and its size should not be reduced without good cause.

2. Higher rates here would tend to attract foreign balances and gold from countries which need them to us who do not want them.

3. Higher rates here would force higher rates abroad and continue the pressure on world commodity prices.

The foregoing was submitted to and unanimously adopted as the report of the Open Market Investment Committee, Washington, D. C., March 21, 1927.

J. H. CASE
Acting Chairman.

REPORT OF THE CHAIRMAN TO THE OPEN MARKET INVESTMENT COMMITTEE AT WASHINGTON, MARCH 21, 1927.

The secretary's report gives the details of operations in the special investment account since the last meeting of the committee. Beyond the shifting of securities, in order to accommodate the Treasury and foreign correspondents, the principal change in the account has been a decrease of $25,000,000 in the open market account and a decrease of $50,000,000 in the volume of Government securities held for foreign correspondents due to maturities of March 15 certificates which, has had the effect of withdrawing about $75,000,000 from the market. It will be desirable at this meeting to determine whether or not these securities should be replaced.

(1)

Before discussing this question, however, it may be well to review briefly the December and March money market situations and the open market policies related thereto.

End of the Year Situation

In view of the experience at the end of 1925, careful consideration was given to the avoiding of such a period of stringent money as appeared at that time, and such large borrowing by a few member banks. The principal steps taken were to discuss the problem thoroughly with a number of the large member banks in New York City and to make every effort to invest the Treasury balance after the tax day, so that no large Treasury balance would be built up. For a time it was feared that it would not be possible to avoid a large Treasury balance and open market purchases were contemplated. It proved, however, possible to reach the end of the year with only a normal Treasury balance, and as a consequence of this and the cooperation of the member banks in showing willingness to appear in debt at the Reserve Bank at the end of the year, there was no marked stringency of money.

March 15, Tax Period.

The March 15 tax period was extraordinary in the very large amount of maturities to be redeemed in cash. Maturities of approximately 660 million dollars plus interest payments of approximately 95 million dollars, resulted in a large immediate net gain to the market, which was only partly offset by a Treasury call of 123 million and income tax check collections. The consequence was a larger Treasury overdraft and a larger gain to the market than has taken place for several years. The gain to the New York market on March 15 through these transactions was over $300,000,000.

The taking up in some way of this large volume of surplus funds in the market was an acute problem. A number of the banks in New York City fortunately anticipated this situation and allowed their reserves to remain about 23 million in deficit for the Saturday, Sunday, and Monday preceding March 15. Thus they entered the tax day with an accumulated deficit in their reserves of 69 million dollars. The following methods were then used to offset large Treasury payments by the liquidation of Federal Reserve assets:

(1) $ 75,000,000 of United States securities in the System and foreign accounts were allowed to run off. Those held in foreign accounts were replaced by bills from our portfolio.

(2) $ 25,000,000 of sales contracts were taken out by dealers.

(3) $ 65,000,000 of ~~investments~~ discounts were ~~taken out~~ paid by member banks.

(4) $ 10,000,000 of securities were sold temporatily for one day on March 14th from the special investment account.

(5) $ 63,000,000 of participations in the Treasury one-day certificates were sold to member banks.

Total $238,000,000.

The sale of participations in the one day certificate was a new method of withdrawing funds from the market. It avoided taking away earning assets from the other Federal Reserve Banks, even temporarily, as sales from the special investment account would have done; it avoided the complicated bookkeeping which that transaction involves; and constituted a simple and logical means of offsetting Treasury payments into the market.

As a consequence of the use of these different methods for removing surplus funds from the market, money remained reasonably steady all week and call money only dipped under 4 per cent on the exchange for a few hours. By Friday the banks were deficient in their reserves and found it necessary to increase their borrowing from the Reserve Bank to $150,000,000. Thus at the close of the week the money situation was restored to approximately the same position as before the tax period, but the Treasury still had an overdraft of $70,000,000 which is still to come out of the market.

Replacement of March 15 Maturities

The present outlook is for moderately firm money conditions, as the market settles down after the tax period. Business is active. The security markets are using more credit. Further large gold imports seem unlikely for the present.

If this anticipation is correct, the country will require currently, as in early March, over one billion dollars of Federal Reserve credit. But there will be a difference in the makeup of this credit, because foreign correspondents replaced about 50 million dollars of securities matured on March 15 with bills, and the bill holdings of the system will probably be reduced to something about that amount and the borrowings by member banks increased. The effect of this operation will be the same as a sale of securities.

Under these conditions borrowing by member banks throughout the country will be around 400 to 500 million dollars and by member banks in New York City upwards of 100 million dollars, and the call rate will be a firm 4 per cent, or possibly higher even if the 75 million of securities in the system and foreign accounts, which matured March 15, are replaced. If, however, these are not replaced, about 75 million dollars additional of member bank borrowing will be required and call rates will be nearer 4-1/2 or 5 than 4 per cent.

The principal argument for reducing our security portfolio, by not replacing the maturities, is that the security market is very active and using more credit, and firmer money conditions will tend to keep speculation within bounds.

The principal arguments for maintaining our security portfolio by replacing the maturities are:

1. A portfolio of securities is a protection against inflation, and its size should not be reduced without good cause.

2. Higher rates here would tend to attract foreign balances and gold from countries which need them to us who do not want them.

3. Higher rates here would force higher rates abroad and continue the pressure on world commodity prices.

REPORT OF THE SECRETARY TO THE OPEN MARKET INVESTMENT COMMITTEE
MEETING AT WASHINGTON, MARCH 21, 1927 333.-6-2

The holdings of Government securities in the Special Investment Account on November 7, 1926, the date of the last meeting of the Committee, amounted to $200,000,000. Since that date the amount has been reduced to $176,323,500, the principal transactions being the following:

Date	SALES and REDEMPTION		
Dec. 1926	To the Fiscal Agent of the British Government, Treasury certificates maturing December 15, 1926, to be applied in part payment of the British Debt to the United States	$ 47,250,000	
Dec. 1926	To Foreign correspondents to partially replace their holdings of certificates of indebtedness maturing December 15, 1926	40,372,000	
Mar. 1927	To Foreign correspondents to partially replace their holdings of 4 3/4% Treasury Notes maturing March 15, 1927	24,394,000	
	On various dates to Foreign correspondents from proceeds of dollar transfers made to us from the Street	48,743,000	
	On various dates to the Market	28,997,000	
Dec. 15, 1926	Redemption and exchange of certificates of indebtedness maturing Dec. 15, 1926	4,349,500	
Mar. 1927	Prior redemption of Mar. 15, 1927 Treas. Notes:		
	On March 7 — $10,000,000		
	" " 9 — 5,400,000		
	Redemption " " 15 — 14,557,500	29,957,500	
			$224,063,000

PURCHASES

The sales of Government securities listed above were replaced by purchases of other issues as follows:

Dec. 1926	From the Fiscal Agent of the British Government (partly in exchange for $47,250,000 sold to them)	$ 35,000,000
Dec. 1926	From Foreign correspondents	14,145,500

Dec. 1926	By other Federal reserve banks	$ 15,972,000
	On various dates in New York Market	111,444,000
Dec. 1926	From holdings of the Alien Property Custodian	650,000
Mar. 1927	" " " " " "	21,000,000
Dec. 15, 1926	50 per cent allotment for Dec. 15, 1926 certificates redeemed	2,175,000
		$200,386,500

Net reduction since November 7, 1926 - - - - - - - - - $23,676,500

Exchanges were also effected with the Federal Reserve Banks of San Francisco and Cleveland whereby we purchased from them on January 20 and February 7, respectively, their outright holdings of March 15, 1927 Treasury Notes for the System Account, and sold to them in exchange a like amount of other issues of certificates and notes in the following amounts:

San Francisco	$8,846,500
Cleveland	7,320,000

The Federal Reserve Bank of St. Louis temporarily discontinued their participation in daily purchases of bills during the period December 20 to 29, 1926, and on December 21, 1926 sold their holdings of bills with maturities up to and including January 11, 1927, which aggregated $5,360,749.26.

On March 14, 1927 a temporary sale was made to a New York bank for one day of $10,000,000 June 15, 1927 - 3 1/2% certificates of indebtedness from holdings of the System Account and on March 15 temporary sales of $60,000,000 were made to New York City banks representing participations by them in the one day special certificate issued by the Treasury to the Federal Reserve Bank of New York to cover the overdraft.

The attached exhibits "A" and "B" show in detail the distribution of Government securities and bankers acceptances among the Federal reserve banks; exhibit "C" a statement showing net earnings of all Federal reserve banks for year 1926 after deductions for expenses, dividends and charge-offs and amounts of franchise tax paid and transferred to surplus account; exhibit "D" a comparative statement showing earning asset holdings of all Federal reserve banks.

Meeting 3/7/27 Postponed

2

400.2

333-6

333-7

FEDERAL RESERVE BANK
OF BOSTON

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

ASSISTANT CASHIERS
ELLIS G. HULT ERNEST M. LEAVITT
L. WALLACE SWEETSER

FREDERIC H. CURTISS
CHAIRMAN OF THE BOARD AND FEDERAL RESERVE AGENT
ALLEN HOLLIS
DEPUTY CHAIRMAN OF THE BOARD
CHARLES F. GETTEMY
ASSISTANT FEDERAL RESERVE AGENT

March 3, 1927.

Mr. Walter L. Eddy, Secretary,
Federal Reserve Board,
Washington, D. C.

My dear Eddy:

I have just received a telegram stating that the Board has cancelled the meeting of the Open Market Committee which was to be held next Monday and I would request, therefore, that you release the reservations which you made on the Federal express for me on Monday night.

Very truly yours,

W P G Harding

Governor.

J

Meeting

#2

333-6
333.1

March 1, 1927.

Dear Mr. Sailer:

Receipt is acknowledged of your letter of February 25th, addressed to Governor Crissinger, advising that arrangements have been made for a meeting of the Open Market Investment Committee to be held in Washington on Monday, March 7th, at 10:30 a.m. The members of the Board are being advised of the time of this meeting.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Mr. L. F. Sailer, Deputy Governor,
Federal Reserve Bank,
New York, N.Y.

Prepared by

333.-6-2

FEDERAL RESERVE BANK

OF NEW YORK

February 25, 1927.

Federal Reserve Board,

Washington, D. C.

ATTENTION OF: Honorable D. R. Crissinger

Dear Governor Crissinger:

Referring to our conversation over the telephone this morning, a meeting of the Open Market Investment Committee has been called for Monday, March 7, 1927, at ten-thirty a. m., at the office of the Federal Reserve Board in Washington.

Each of the governors who are members of the committee has advised me by telephone that he or a representative will be present at the meeting.

Very truly yours,

L. F. Sailer

L. F. SAILER,
Deputy Governor.

Noted
AT EXECUTIVE COMMITTEE
MEETING,

MAR 1 1927

see ans 3/1/27