

CONFIDENTIAL

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MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE
OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C., JAN. 25, 1935

The meeting was called to order at 10:45 a. m. in the offices of the Federal Reserve Board, there being present

Governor Eccles,
Governors Young, Fleming and Schaller, and
Deputy Governors Burgess and Hutt.

In the absence of Governor Harrison, Governor Young was elected chairman pro tem.

[Governor Eccles raised the question whether the government security portfolio of the Reserve banks might not well be made more flexible, rather than being static at the same constant amount. He also stated that the Treasury had been concerned over the extremely rapid rise in government bond prices, and raised the question whether the Reserve banks could not operate in the market to exercise some restraining influence on either excessively rapid rises or declines in prices of government securities in order that the market might be maintained in sound condition in anticipation of government financing in March.]

It was the view of the Treasury that this was more logically the business of the Reserve banks than of the Treasury, involving as it does the regulation of the money market. While a certain amount of influence over the market could be exerted by making shifts between maturities in the System Account the question had been raised whether the purpose could not be accomplished better by some changes in the total portfolio of securities held by the Reserve banks. On other grounds there was, moreover, a considerable argument for greater flexibility in the portfolio.

[There ensued general discussion of the implications of this course including the question of the possible adverse reaction of the public and the market

to any sale of government securities by the Reserve banks. There was also discussion of the recent effect on the market of anticipation of action by the Supreme Court.)

At 11 o'clock the meeting adjourned to reconvene in a few minutes in the office of the Secretary of the Treasury. The Secretary and the Under Secretary were present in addition to those listed above.

The Secretary raised the same question as had Governor Eccles of the desirability of flexibility in the System Account rather than the holding of a static fixed amount of securities.

Governor Eccles pointed out that if the System Account were to show any reduction it would be necessary to issue a carefully prepared statement giving the reasons for the change.

After further discussion of recent and possible market conditions it was

VOTED that a wire be sent to all members of the Federal Open Market Committee to request them subject to the approval of the Federal Reserve Board to authorize the executive committee, pending a meeting of the full committee in the near future, to make purchases or sales or shifts between maturities in the System Account up to a total of \$250,000,000. This authorization is in addition to the authorization to make shifts between maturities up to 100 million dollars voted at the December 17 meeting. This authorization is desired primarily to place the System in position to use its influence towards preventing any possible disturbances in the market pending a meeting of the full committee.

After some informal discussion of Treasury financing the meeting adjourned at twelve o'clock and returned to the Federal Reserve Board offices where it reconvened.

After discussion the motion given above was put in its final form and there was an informal discussion of possible operations under this motion in which the dangers of adverse public reaction which might arise from fluctuations in the

portfolio were emphasized and a number of those present expressed the hope that it might not be necessary to show any change in the total of the account in the near future. It was also suggested that a great deal could be accomplished in dealing with the market by shifts between maturities in the account without any change in the total.

The meeting adjourned at 12:25 p. m.

The meeting reconvened at 3:30 p. m. There was an informal general discussion of Treasury and Federal reserve problems.

The meeting adjourned at 4:25 p. m.

W. R. Burgess,
Secretary.