February 27, 1933

Mr. Mills referred to the tenseness of the present banking situation and the very heavy pressure which is being brought on the banks in certain sections of the country; to the fact that because of advances which have been authorized recently by the Reconstruction Finance Corporation the Treasury Department this week will be forced to withdraw from its depositary banks practically all of its balances, which will result in increasing the pressure on those banks and particularly on the banks in New York City where the pressure is already heavy due to the movement of funds to the interior and abroad; and to the possibility that, as a result of this added pressure, the banks may be inclined to dispose of considerable amounts of Government securities which under existing conditions may cause such a weakness in the Government security market as to create an impression, generally, that there is not a satisfactory market for such securities. He called attention to the fact that the banks in the United States hold approximately $10,000,000,000 of Government securities, and that it is expected that it will be necessary to arrange for the sale of Government short term obligations amounting to more than $1,000,000,000 on March 15, 1933, in order to provide for retiring maturing obligations and needed additional funds. He stated that the furnishing of funds by the Treasury to the Reconstruction Finance Corporation is in response to the unsettled banking situation and expressed the opinion that the Federal Reserve System should give consideration to the advisability of purchasing during the current week Government securities in such amounts, up to $100,000,000, as might be necessary to steady the market. He added that this suggestion is influenced entirely by the present critical conditions and not by pending

Treasury offerings and that as Chairman of the Federal Reserve Board he desired to record the opinion that as a matter of sound banking policy in the face of the present crisis the Federal Reserve System should purchase Government securities as a means of putting additional funds into the market this week. He felt that as the present situation is in many ways a psychological one it is important to avoid any further strain on banks, particularly at this time, which, in his opinion, may prove to be the turning point to recovery, if public confidence is not further weakened.

Governor Meyer stated that he feels that the recent thinness in the market for Government securities is incident to the necessary readjustment in a market which has been too high under the conditions that have prevailed; that in view of the recent increase in money rates abroad, over which control cannot be exercised in this country, and the increase in money rates in the New York market and in the bill rates at the Federal Reserve Bank of New York, continued purchases of Government securities at the present time would be inconsistent from a monetary standpoint; and that the New York market should protect itself against the higher rates abroad by increased rates and not through open market purchases of governments by the Federal Reserve Banks. He expressed the opinion that any disturbance in the Government securities market would come in long term securities which recently have shown less resistance than the shorter maturities; that the Treasury Department should canvass the possibility of investing available postal savings funds in the purchase of such long term securities and that the only action which the Federal Reserve System should be expected to consider under existing conditions would be the possible exchange of some of its holdings of

securities of short maturities, which continue to be in relatively good demand, for Treasury obligations with maturities of from nine to eighteen months. He also expressed the view that any reasonable amount of open market purchases at this time would prove to be ineffective and appear to be a vain attempt to prevent a readjustment of rates which is inevitable.

The thought was also expressed that the suggested purchases might be interpreted, particularly in Europe, as a direct attempt of the Federal Reserve System to support the Treasury financing program and if so would have a very detrimental effect both upon the credit of the Government and upon the standing of the Federal Reserve System.

A general discussion followed, during which it was indicated that the other members of the Board were not disposed to favor at this time the action suggested by Mr. Mills. Mr. Mills stated that he did not wish to press the matter, but that he felt strongly that the suggested action is desirable.

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The Assistant Secretary presented a telegram just received from Deputy Governor Kenzel of the Federal Reserve Bank of New York, stating that the bill market opened up this morning bidding 1 1/4% for ninety-day bills and offering them at 1 1/8% unindorsed and 1% indorsed; that there were only moderate offerings of new paper to the market; that dealer's portfolios were not large; and that the Federal Reserve Bank of New York purchased, largely from member banks, $58,000,000 of bills for System account at 1%.

Governor Meyer reviewed the discussion at the morning session and