CONFIDENTIAL
333.3-a-1
Final Minutes
9/21/34

MINUTES OF MEETING OF
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
September 21, 1934.

The meeting was called to order at 10:45 o'clock a. m., the following being present:

Governor Harrison, chairman, Governors Young, Norris, Fancher, Black, Schaller, Martin, Geery, Hamilton, McKinney, Calkins and Deputy Governors Peple and Rounds, acting secretary.

The secretary's report of operations was distributed and ordered filed.

The preliminary memorandum was also distributed. The chairman discussed this memorandum with reference to the bond market and particularly to the government bond market, pointing out that the immediate problem was to determine how the Treasury and the Federal Reserve System can best cooperate to assure sources of government financing. In this connection the desirability of selling early matruities now held in the open market account up to possibly $50 millions, and buying in replacement thereof called 4ths which would then be exchanged for 4 year notes, was discussed. The chairman reported that Undersecretary Coolidge had already requested the Federal Reserve Bank of New York to purchase this morning called 4ths for Treasury account, and had suggested that it would be helpful if the system open market account would make the exchange suggested above with informal understanding that the Treasury would take back the 4 year notes the following week in exchange for some shorter maturities. Following discussion it was

VOTED to authorize the Executive Committee, if advisable, to sell up to $50 millions of short maturities and to buy a like amount of called 4ths, it being understood that the called 4ths purchased would be exchanged for 4 year notes.

It was understood also that the Executive Committee was authorized in its discretion to negotiate with the Treasury for the subsequent exchange of the 4 year notes for shorter maturities held by the Treasury in various investment accounts.

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Governor Martin entered the meeting at this point.

The chairman raised the question as to whether the practice of all reserve banks was uniform with respect to the granting of loans secured by government obligations. A poll of those present indicated that all reserve banks were now lending the full par value, although two of the banks had a rule limiting such loans to an amount less than par if and when the bonds dropped a certain number of points below par. The chairman stated that he had raised the question because of the possibility that the Treasury might ask the Federal reserve banks concerning their practice in this regard, and also in view of the possibility that it might be suggested that a public announcement to this effect be made. Discussion of the question indicated general agreement with the present policy of lending at par, but considerable question as to the wisdom of making any public announcement partly because of the commitment involved in so doing, and partly because of the danger of its being interpreted as an artificial effort to support the government market. Upon motion of Governor Calkins it was

VOTED that it be the policy of all Federal Reserve Banks under present conditions to lend to member banks up to the par value upon the security of obligations of the government, it being understood that no publicity would be given it since this action did not reflect any material change in policy, which policy was already well understood by member banks, and it was believed that any public announcement might do more harm than good.

The chairman referred to discussion at a previous meeting regarding the possibility of the Treasury using part of the stabilization fund for the purpose of acquiring a part of the government bond portfolio of the reserve banks. Governor Norris pointed out that the Treasury has over $2 billions cash balance at this time and in addition $2,800 millions in the stabilization fund for which it had no present use, and in view of these large balances, he added, the Treasury might well reduce both its balances and its debt by buying up to $2 billions of its obligations from the Federal reserve banks upon an agreement by the banks to purchase a like amount in new securities from the Treasury upon request any time prior to December 31, 1936. He pointed out the effect this operation would have upon the current earnings of the Federal Reserve System. He suggested that the profit upon the bonds sold to the Treasury offset this loss of current income.

Governor Black suggested that the System should offer to take from the Treasury additional securities as needed provided the Treasury would agree to buy from the System a like amount within a specified time. There was some doubt whether the Treasury could or should make any such contract of repurchase. There followed considerable discussion concerning the merit of the Reserve System in effect underwriting the government's credit by a definite offer to take whatever might be necessary of Treasury issues. While it was generally agreed that the System should under present conditions do all it properly can to assist the Treasury in its financing program it would not be advisable from the point of view of the Treasury or the System to make any offer which might be construed as equivalent to an offer to underwrite financing of the Treasury deficit.

After discussion Governor Black offered the following resolutions; which, upon motion duly made and seconded, was adopted:

That it is the sense of the conference that the Federal Reserve System is deeply interested in the present, as in the past, financing of the Treasury, and instructs the chairman of the Federal Open Market Committee to convey to the Secretary of the Treasury the Reserve System's interest, and to advise the Secretary of the Treasury that the System will continue its active aid in this financing and will be pleased to consider such suggestions as may be made for further cooperation.

The meeting adjourned for lunch.

Afternoon Session

Undersecretary Coolidge attended the afternoon session for a brief period. He stated that the Secretary would very much appreciate the System's offer for cooperation in the financing of the current issue and added that as a matter of fact the System had through the Federal Open Market Committee cooperated fully in the past, and he did not himself see any way in which greater cooperation could be given at the moment. He reported concerning the current offering and added that while it was impossible to estimate at this time with respect to the December financing, it was expected that the Treasury would run into December with large balances which it was believed would reduce somewhat the amount of the offering to be made at that time.

The Chairman reported to Undersecretary Coolidge that the conference had been wondering what, if anything, the Reserve System could do to allay fear which seems present in places regarding the government bond market. Mr. Coolidge said he could think of no way or of nothing that the System could do that would be helpful more than it has already done.

The meeting adjourned at 3 o'clock p. m.

R. Leslie Rounds,
Acting Secretary.