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Final Minutes*

FINAL DRAFT
~~PRELIMINARY DRAFT~~ - SUBJECT TO CHANGE

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE
OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
MARCH 13, 1935.

3/13/35

The meeting was convened at 10:40 a. m. at the offices of the Federal Reserve Board, there being present

Governors Young, Fleming, Seay, and Schaller, and Deputy Governor Burgess, secretary.

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

Mr. Burgess reported that in accordance with the agreement of the members of the committee by telephone, and under authority of the resolution adopted by the Federal Open Market Committee on February 4 to buy, sell, or shift up to \$250,000,000 of government securities, one half of the called Fourth 4 1/4 per cent Liberty bonds held in the System open market account had been delivered to the Treasury for conversion into the new 2 7/8 per cent bonds, and that there was still held in System account \$42,367,700 of these bonds. While the committee had authorized the sale of these bonds in the market when possible, (with corresponding purchases of other maturities) the market for Fourths had not been strong enough to carry out the operation without interfering with the conversion. Mr. Burgess reported that the Federal Reserve Bank of New York had followed the same procedure as the committee with respect to its holdings of \$12,000,000 of Fourth 4 1/4 per cent Liberty bonds.

After discussion it was agreed that the remainder of these bonds in the System account should be sold in the market if it could be done without depressing the market and thus interfering with the conversion. If this was not possible it was agreed that they should be converted into the new 2 7/8 per cent bonds with

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the understanding that an attempt would be made later to shift into other maturities a sufficient amount to avoid relatively excessive holdings of a single bond issue.

Mr. Burgess also reported that under the agreement of the committee to buy up to \$25,000,000 of bonds in order to maintain an orderly market, the following purchases had been made:

For System Account

\$ 750,000 - 3 % Treasury bonds 1951-55
 775,000 - 3 1/2% Treasury bonds 1949-52
 4,050,000 - Fourth Libertys, for later delivery
 1,100,000 - 3 % Treasury bonds of 1951-55 for later delivery
 2,240,000 - 3 1/8% Treasury bonds 1949-52 for later delivery

System holdings of Treasury bills had been reduced by an amount corresponding to the amounts of the above purchases actually delivered. As the market improved it might be possible to resell to the market some of the bonds delivery of which had not yet been taken. He also reported that the Treasury had now undertaken to make purchases of called Fourths for its own account in order that the System might not be loaded up with too large an amount of this maturity in view of its already large holdings.

There was then a brief discussion of the question whether the Treasury should call for redemption on June 15 any or all of the First Liberty Loan Bonds now outstanding.

At 11:00 a. m. the committee adjourned to the office of the Secretary of the Treasury, there being present in addition to the committee,

Secretary Morgenthau, Under Secretary Coolidge, and Messrs. Bell, Haas, and Upham.

Governor Young reported the action of the committee with respect to its holdings of called Fourth 4 1/4 per cent Liberty Bonds, and with respect to

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purchases of bonds in the market to maintain an orderly market. There ensued a discussion of the proper function of the Federal Reserve System with respect to the government security market, in the course of which there was pointed out the necessity for a bank of issue to maintain a large proportion of its assets in short term securities which can be liquidated rapidly at a time when it becomes the duty of the bank to exercise restraint.

There followed an extended informal discussion on the question of whether the Treasury should call for redemption on June 15 the first Liberty Loan bonds. All the members of the executive committee with the exception of Governor Seay recommended that the First 4 1/4 per cent bonds be called, but that the First 3 1/2 per cent bonds should not be called at this time. Governor Seay recommended that both issues should be called.

At about twelve o'clock the meeting adjourned briefly to Under Secretary Coolidge's office where the discussion was continued.

At 12:20 p. m. the committee returned to the Federal Reserve Board offices.

After a brief further informal discussion of general matters, the meeting adjourned at 12:45 p. m.

W. Randolph Burgess,
Secretary.