333.3-a-1
Dr. Burgess' secretary advises that these minutes are now final. 6-20-35
Final Minutes
4/17/35

CONFIDENTIAL

FINAL ~~TENTATIVE~~ DRAFT - SUBJECT TO CHANGE

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE
OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
APRIL 17, 1935

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

Governor Harrison, chairman, Governors Young, Seay, and Schaller, and Deputy Governor Burgess, secretary.

The secretary's report of operations was reviewed and accepted.

At this point Governor Eccles entered the meeting.

After a brief general discussion the meeting adjourned to the Treasury Department.

At 11:00 a. m. the committee met with the Secretary of the Treasury in his office, there being present in addition to those noted above Secretary Morgenthau, Under Secretary Coolidge, and Messrs. Bell, Haas, and Upham.

There was a brief informal discussion of the program the Treasury might follow in its issue of Treasury bills in ensuing weeks.

The meeting then proceeded to an informal discussion of the proposals for an offering of obligations to refund the First Liberty Loan bonds which had been called for redemption on June 15 next.

The meeting adjourned shortly before 12:00 m. and reconvened at 12:00 m. in the offices of the Federal Reserve Board.

After discussion it was voted under general authority to make shifts between maturities voted by the Open Market Committee on February 5 to convert the holdings of First Liberty Loan bonds in system account into Treasury notes if such notes should be offered as part of a conversion program, or into other obligations available in the market. In this connection it was suggested that consideration be given to exchanging a part of the maturing obligations into short term bonds

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rather than Treasury notes in order to secure a better yield.

After discussion it was also voted to authorize shifts between maturities in the System account up to $25,000,000 if they should be necessary as an influence towards maintaining an orderly market. It was understood that this authority would not be exercised with the aim of pegging the market at any point, but solely if necessary to avoid disorderly conditions in the bond market.

In view of the informal suggestion which the Secretary of the Treasury had made two weeks before over the telephone that consideration might be given to a reduction in the System portfolio of government securities, the question was raised whether it would be wise at this time to make some sales of such securities. It was noted that when the suggestion had been discussed by telephone two weeks ago with the members of the executive committee and with Governor Eccles, it was not believed wise to take any action. It was also pointed out that the Treasury was not now in favor of making such sales at the present time. Governor Schaller and Governor Seay emphasized the desirability of making sales as a means of securing more flexibility for the portfolio when it could be done properly and without disturbance.

Governor Harrison suggested that the principal question was whether sales should be made simply for the purpose of establishing the principle of flexibility before the System was prepared to make sales as a part of a general credit policy of restraint.

Governor Harrison also reported discussions which had been held during past months by the directors and officers of the Federal Reserve Bank of New York with respect to this question, and by agreement the Secretary read a confidential memorandum which had been prepared for and approved by the directors of the New York bank on March 21, 1935 as representative of the views of that bank at that time. A copy of this confidential memorandum is attached herewith.

continue

After further discussion and review of the question it was unanimously decided to take no action at the present time.

The meeting adjourned at 1:15 p. m.

At 2:30 p. m. the meeting reconvened, the same persons being present.

It was suggested that a full meeting of the Federal Open Market Committee should be held in the latter part of May or early in June at the time when June financing would be discussed.

There ensued a discussion of the distribution of government securities among the Reserve banks. Governor Schaller pointed out that the holdings of the Chicago bank were larger than their fair proportion on the basis of the method of allotment now being used. The question was raised whether there should be an attempt to make redistribution of securities to bring the holdings into better conformity with the present allotment ratios. Question was also raised whether and on what basis the New York and Chicago banks might throw into System account their present outright holdings of government securities.

After discussion it was decided not to attempt any major readjustment at present, but to make a gradual redistribution by filling requests for additional allotments wholly from the participation of the Chicago bank in the System account until a better equalization of holdings had been reached, and it was understood that the Secretary would communicate with banks showing a deficit at the end of April.

The question of further sales of 2 7/8 per cent bonds was discussed and it was agreed that such sales would be arranged as and when market conditions are appropriate.

Governor Young raised the question whether it would not be wise to anticipate maturities of notes when they were within six months of maturity. The committee was in sympathy with this idea in so far as it could be arranged with advantage in the market from time to time.

There was some informal discussion of the amount of Treasury balances in the Reserve banks, and attention was called to the fact that these balances were larger than usual.

There was some informal discussion of the financial implications of the bill for social security.

The meeting adjourned at 2:50 p. m.

W. Randolph Burgess,

Secretary.