STRICTLY CONFIDENTIAL

CHRONOLOGY OF EVENTS RELATING TO THE GOVERNMENT SECURITY MARKET

1. June 25 --- The Republic of Korea is invaded.

2. June 26 -- Secretary Snyder conveys to the Open Market Committee through the Fiscal Assistant Secretary his feeling that "Everything possible should be done to maintain a basically strong position in the Government bond market during the present period of international disturbance."

3. June 27 to July 17 -- Federal Reserve ignores the Secretary and continues to sell long bonds in the market. In 13 trading days, the Federal Reserve sells over $300 million of long-term bonds.

4. July 12 -- McCabe writes the Secretary that, instead of stability, continued pressure should be placed on the Government security market in order to reduce bank credit.

5. July 17 -- Secretary replies to McCabe, calling again for stability in the Government bond market and explaining his reasons therefor at same length. (Copy attached.)

6. July 17 to August 10 -- Federal Reserve continues to put pressure on Government security market, selling $600 million of long-term bonds in 18 trading days.

7. August 10 -- McCabe and Rouse meet with the Secretary. McCabe expounds on problem of preventing inflation. Talks about higher discount and short-term interest rates, and further pressure on the long-term market. Secretary reiterates the necessity for stability in the Government security market during international crisis. McCabe requests another conference to discuss the matter with the Secretary further, and this is set for August 18.

8. August 10 through August 18 -- Federal Reserve continues pressure on long-term bond market, selling $145 million of long bonds in 7 trading days.

9. August 18 -- McCabe and Sproul meet with the Secretary, not for the purpose of discussing interest rates as indicated on August 10, but to tell him that the Federal Reserve has decided to raise the discount rate by 1/4 of 1 percent, and to tighten rates in the short-term market generally. The Secretary tells them that his views on stability remain unchanged and that he cannot, therefore, go along with the Federal Reserve. The Secretary announces the September-October refunding, as approved by the President. McCabe checks the proposed discount rate increase with the President, who tells him that he doesn't want Government security rates raised. Federal Reserve, nevertheless, goes forward with its program and announces change in the discount rate.

10. August 21 -- Federal Reserve raises interest rates in the entire short-term Government security market. Billions of dollars of Government securities go to a discount in the first half hour of trading.

11. August 24 -- Secretary informs President of the situation in the market. President talks to McCabe about it and sends him a letter calling for the maintenance of confidence in the credit of the United States and stability in the Government security market. McCabe returns the letter to the President, assuring him, however, that his request will be carried out.

12. October 2 -- McCabe and Sproul meet with the Secretary and advise him that they are going to raise short-term rates further. (The one-year rate had already been raised from a 1-1/4 percent to a 1-3/8 percent basis.) This is confirmed by letter on October 16. This letter assures the Secretary, however, that "these actions will not affect the maintenance of the 2-1/2 percent rate for the outstanding longest term Government bonds."

13. October 17 - Federal Reserve starts to raise yields on short-term Treasury issues further. One-year rate rises to nearly 1-1/2 percent within a few days.

14. October 26 - Meeting at the White House between the President, Secretary Snyder, and Chairman McCabe. McCabe finally agrees to prevent short-term rates from going up further and, "for the present," to maintain the one-year rate at 1-1/2 percent. This is confirmed by letter on October 30.

15. November 17 - McCabe gives Secretary the Federal Reserve views on December-January financing, proposing a five-year, 1-3/4 percent note. Secretary agrees to go along with McCabe so long as the financing can be done within the pattern of 1-1/2 percent on one-year securities and 2-1/2 percent on long bonds.

16. November 24 - Federal Reserve allows market to go off sharply as result of November 22 announcement of December-January financing. Unsettles market psychology further by dropping price on Victory Loan issue 2/32 during the day.

17. December 1 - Secretary Snyder sees the President and tells him about developments in the market. The President calls McCabe, discusses the matter with him and tells him that he is relying on the Federal Reserve to carry out the commitment to keep the market stabilized.

18. December 19 - McCabe advises the Secretary that the Board has further measures for credit control in mind, specifically, raising reserve requirements and increasing margin requirements on securities. The Secretary tells McCabe he doesn't think these moves will do much toward controlling credit and makes it clear to McCabe that he wants stability in interest rates. McCabe assures the Secretary that he does not have further interest rate changes on Government securities in mind.

19. December 26 - Federal Reserve reduces the price of the Victory Loan issue from 100-23/32 to 100-22/32. This unsettles the market and causes much conversation as to whether the Government really proposes to maintain the 2-1/2 percent rate.

20. December 28 - McCabe advises the Secretary that the Federal Reserve has taken action to raise reserve requirements; tells the Secretary further that the Federal Reserve proposes to reduce the buying price on Victory Loan 2-1/2s, allowing them to go down 1/32 a day. He mentions a floor of 100-8/32 and then suggests a range of between 100-4/32 and 100-8/32 for this issue. The Secretary tells McCabe he wants stability maintained in the long-term market.

21. January 3 -- The Secretary meets with McCabe and Sproul, who outline a program which would involve a complete reorientation of debt management policy. They propose a program of higher interest rates, particularly in the long-term area. They also want higher interest rates on savings bonds.

22. January 17 -- Joint conference between the President, the Secretary, and McCabe to discuss the defense financing program, at which time it is agreed that market stability is essential and that, therefore, the 2-1/2 percent rate on long-term Government bonds shall be maintained, and that refunding and new money issues will be financed within the pattern of that rate.

23. January 18 -- Secretary's speech before the New York Board of Trade announcing a policy of market stability and stating that during the defense period refunding and new-money issues will be financed within the pattern of the 2-1/2 percent rate.

24. January 22 -- Sproul makes a speech before the New York State Bankers Association, attacking Secretary Snyder's statement on defense financing and market stability policy.

25. January 25 ---Eccles testifies before the Joint Committee on the Economic Report and strongly criticizes Treasury financing policy.

26. January 29 - Federal Reserve reduces the buying price on Victory Loan 2-1/2s to 100-21/32. In order to assure market stability, Secretary authorizes the Federal Reserve, as fiscal agents, to purchase this issue for the account of the Postal Savings System at 100-22/32 -- the price that had existed up to 2:00 p.m. on this day.

27. January 30 - Federal Reserve fails to cooperate with Treasury action. Terminates open-market purchases of Victory Loan 2-1/2s and buys $33 million of this issue for Postal Savings account.

28. January 31 - Open Market Committee meets with the President in accordance with his request of the previous day.

29. February 1 -- The White House releases a statement on the January 31 meeting, which says that the Federal Reserve Board had pledged its support to the President to maintain the stability of Government securities as long as the emergency lasts. Press Secretary Short announces that this statement is to quiet rumors of differences of opinion between the Treasury and the Federal Reserve Board.

30. February 2 -- President Truman sends letter to Chairman McCabe, thanking the Board and the Open Market Committee for their assurance that they would fully support the Treasury refinancing operation as to refunding and new issues; and would stabilize the market for Government securities and maintain it at present levels in order to assure successful financing requirements and establish in the minds of our people confidence concerning Government credit.

31. February 4 -- Eccles releases to the press his views on the meeting with the President. He disputes the assumption that the Board supports the Treasury position and, in evidence thereof, releases the Open Market Committee record of the meeting.

32. February 5 and February 6 -- There is considerable discussion on the floor of the House about the Treasury-Federal Reserve controversy -- involving primarily Representatives McCormack, Patman, and Crawford.

33. February 5 and February 6 -- The press carries a report that on February 5 the Senate Banking Committee starts an inquiry to decide whether public hearings should be held. This is followed by a press release on February 6 that Senator Robertson has closed the door on any public hearings, stating that neither

agency wishes to usurp the functions of the other and that he thinks the matter is going to be adjusted by mutual cooperation.

34. February 8 -- McCabe and Sproul meet with the Secretary and hand the Secretary a letter in which they propose for the present to maintain long-term bonds above par with the further proviso that if substantial Reserve buying is necessary, the Secretary would be prepared to announce a new long-term higher-income bond into which he would exchange all of the outstanding issues. With respect to short-term rates, the Federal Reserve proposes to hold purchases of short-term issues to a minimum and, if bank credit demands continue, to increase short-term rates. McCabe reads to the Secretary the letter the Open Market Committee proposes to send to the President. It is in open defiance of the President's request that the market for Government securities be stabilized. The letter is dated February 7, but appears to have been delivered February 8.

35. February 8 -- The President tells his weekly news conference that he understands a majority of the Federal Reserve Board now agrees with the Government's interest rate views; and adds that he had thought all of the members of the Board supported these views, based on what the Board told him.

36. February 9 -- Senators O'Mahoney, Maybank and Robertson meet with McCabe and ask him to prevail upon the Open Market Committee to withdraw the letter written to the President; and to maintain the market at status quo until after Secretary returns from hospital. McCabe agrees to try.