

January 9, 1941

(Record of press interview with the Secretary of the Treasury)

Do you have any explanation for the continued decline in Government securities:

Well, I think all you have got to do is to look at date that Mr. Eccles made his statement.

Do you attribute the decline to the proposals advanced by the Federal Reserve Board?

I do entirely.

What specifically, in Reserve Board statement would do that?

Their proposals had that effect. I am just talking facts. I am not prepared to interpret them.

Do you think the decline was warranted?

Do I?

Yes, Sir?

Absolutely not.

They have been saying that we have experienced inflation in high-grade Government bonds, with yields almost ...., well, they are infinitesimal, so you are disturbed by their decline, are you?

I am not disturbed but there is no reason that I know of for interest rates to harden at this time unless it is a proposal like the Federal Reserve System, and if Congress should put it into effect -- why it might become permanent.

Do you think in view of large financing Treasury must undertake in near future these proposals were ill-timed?

I am not prepared yet to make a statement. I take it that if Banking and Currency Committees of the Senate and House seriously consider these proposals, I will be called and, if I am called, at that time I will be prepared to state my position.

Mr. Secretary --- I take it you do not want these interest rates to harden?

I wouldn't say that. I have always felt it is a question of supply and demand and here in the Treasury we don't know of any demand which should cause such a sharp rise in interest rates as that which has taken place since the first of January. That not only goes for the Treasury but everybody else, whether he wants to borrow \$100 - or \$1000 - or a billion dollars. It affects everybody the same.

You say, Mr. Secretary, that you see no reason at all for the hardening and yet you in that same statement do not say whether you oppose that hardening of interest rates?

Well, I don't believe in taking any artificial means at this time to increase such rates.

In view of that hardening of interest rates and the increase in yields, do you anticipate that you will have to pay a little more for your \$500 million dollars in financing?

It looks that way now.

In view of the development in the Government bond market plus your comments in connection with that development, can we correctly assume that you are not wholeheartedly in accord with Mr. Eccles when these proposals were made?

I would rather wait until I have to testify on the whole thing up there. I repeat if Congress takes these proposals seriously and they have hearings, at that time I will be ready to go into the whole matter.

Are you speculating that they will not take them seriously?

Well, I just said if they take them seriously.

Mr. Taft has already taken them seriously.

I said Congress. .... I have never been in favor of forcing interest rates down nor up artificially.

Well, your policy of deficit financing in one way has been responsible for so-called artificially low interest rates.

The point I have always made here, I have never believed in taking legislative means of either forcing money down or forcing it up. As the result of general conditions both within the United States and without, we have had very cheap money. Now naturally here in the Treasury it has been advantageous to us to have it. It has enabled us to borrow at very reasonable rates plus the fact that the public has had confidence in United States securities. Now I know the argument that it is artificially cheap money which has enabled us to borrow, but I have ..... When I came here in November 1933 the conditions were for cheap money and I couldn't borrow more than I think, 2 1/2 per cent or 2 3/4 per cent for eleven months ..... so unless the public has the confidence in the Government as before and its fiscal policy ..... it is not necessarily a result that you can borrow at a lower rate.

Has this decline warranted any open-market operations to stem the fall?

If it has I have not heard of it. (There was a little horseplay). I mean I can't imagine the Federal Reserve stepping in but they might.

On this question of supply and demand would you consider it fictitious for the Federal Reserve Board to step in?

Well, I have always been in favor of having what I call a natural bond market and the only excuse for the Federal Reserve or ourselves to step in would be to act as a cushion so as to keep from there being any air pockets.

Of course, this present decline has been orderly, has it not?

I consider it such. It has been rather sharp but orderly.

Do you consider the Eccles proposal an artificial impetus?

Well, I would rather wait ..... there are a lot of things in this so-called Eccles plan besides excess reserves and if I am called upon the Hill I propose to have something to say on each recommendation.

Have you talked to the President about this plan?

That is his business, if you don't mind.

The charge has been made that this Eccles plan will return the money market back to the New York bankers and take control away from the Government.

It is an interesting idea (there was some horseplay). I mean that question raises an interesting thought.

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