

Form F. R. 511

TO Chairman Eccles
FROM Elliott Thurston

REMARKS:

12/23/44

This came over late last evening, and I understood the Secretary was trying to reach you by phone last night, so possibly you know about it. In the meantime, it has been read over the phone to Allan so he would be informed.

E.T.

CHAIRMAN'S OFFICE



THE SECRETARY OF THE TREASURY
WASHINGTON 25

December 22, 1944

Dear Marriner:

As Under Secretary Bell has indicated to you from time to time during the course of the past month or so, the Treasury Department is concerned over the rise in the pattern of interest rates on certificates of indebtedness, particularly those of short term, which has been permitted to take place during this fall.

The extent of this rise is shown by the enclosed chart, which compares the pattern of rates on certificates of indebtedness as of September 1, 1942, September 1, 1943, September 1, 1944, and December 19, 1944. The point on the yield curve for certificates of three months' maturity, which was about 0.46 percent on September 1, 1944, had risen to about 0.68 percent by December 19. The September 1 yields, as shown in the chart, were in line with the pattern of rates which had been maintained for the previous two years; while the yield curve on December 19 was markedly out of line with that pattern. This rise in the yields of short-term certificates of indebtedness places them entirely out of line with the $\frac{3}{8}$ of one percent rate on three-month Treasury bills.

You will recall that, at the discussions leading up to the establishment of the present pattern of rates, both you and Mr. Sproul believed that short rates should be fixed at a level higher than was finally decided upon. Both of you agreed, however, at a meeting held in my office on March 20, 1942, that the Federal Reserve System could and would execute any pattern of rates which I might decide was required for the efficient and economical financing of the war. This has continued to be our understanding ever since that time.

During this period, the Federal Open Market Committee has proposed increases in short-term interest rates on several occasions. I have felt myself compelled, as the Government officer principally responsible for the financing of the war,

FOR DEFENSE

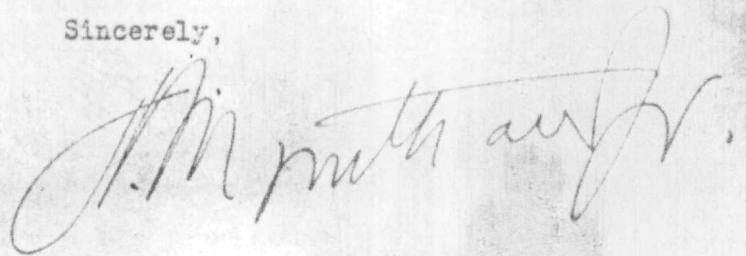


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AND STAMPS

to reject these proposals in each case. As you know, I feel very strongly that this war should not be financed, as was the last one, at rising rates of interest. Up to the current rise in certificate yields, the pattern of rates set in 1942 has been held extremely well; and I have, from time to time, commended you and many of your colleagues upon your fine performance of the promise which you had made to me, and have told you what a major role it has played in the efficient financing of the war.

It seems to me that the present rise in the yields of Treasury certificates of indebtedness constitutes a departure from the pattern of rates which you had agreed to maintain; and I should, therefore, like to request the Federal Open Market Committee to take appropriate steps, over a suitable period of time, to bring the yields of Treasury certificates of indebtedness back to approximately their September 1 levels.

Sincerely,

A handwritten signature in cursive script, appearing to read "A. M. Wright".

Honorable Marriner S. Eccles
Chairman, Federal Open
Market Committee
Washington, D. C.

Enclosure

YIELDS OF CERTIFICATES OF INDEBTEDNESS ON SELECTED DATES

Based on Mean of Closing Bid and Asked Quotations

