BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 2, 1947

To Chairman Eccles

Subject: Meeting with security dealers.

From R. A. Musgrave RAM

Yesterday Mr. Rouse and I attended a luncheon given for Treasury officials by the Government Security Dealers Group. Government Security dealers present were R. C. Morris of the Bankers Trust Company, C. J. Devine of C. J. Devine and Company, H. N. Rapp of the Discount Corporation, B. J. Levy of Salomon Bros. and Hutzler, John Roll of John Roll and Company, and Aubrey Lanston of the First Boston Corporation. Also present were Secretary Snyder, Under Secretary Wiggins, Assistant Secretary Bartelt and other Treasury officials.

Mr. Morris opened the discussion with a general outline of the money market problem. He pointed out that there was some difference of opinion in the Group but that the general feeling was that the bill option should be discontinued and that this was a good time to do it. Secretary Snyder responded, emphasizing the difficulty for the Treasury to act in view of budgetary uncertainty, the need for debt retirement and suggesting that the Treasury's approach to the whole problem was open-minded and not crystalized as yet. Mr. Wiggins urged the need for tax reform. Neither official touched on technical market problems.

The discussion centered around the matter of interest costs involved in the change of rate policy and the possible effects of various steps. The opinion was expressed that an unpegged bill rate would remain well below the present level of the certificate rate and that an unpegged certificate rate would not rise above one per cent. Also, it was felt that such minor increase in short-term rates would have no immediate effect upon the price of longer issues but in the course of time would check further pressure on such prices resulting from bank shifting. Whereas the majority of the Group and Mr. Lanston in particular appeared to favor an increase in the certificate rate at an early date, Mr. Rapp suggested that the restoration of a flexible policy at this time might suffice without requiring an actual increase in the certificate rate. There was a general feeling among the Group that some early action was required to prevent further pressure on the long-term rate and that the present market and low position of dealers was especially favorable to early action.

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