Form F. R. 511

TO ______________________________

FROM ______________________________

REMARKS:

These papers were used at the meeting held in Secretary Snyder's office on Monday, June 2, 1947 -- Chairman Eccles and Mr. Sproul attending from Federal Reserve.

CHAIRMAN'S OFFICE

My bill memorandum of yesterday was written before seeing this report which differs slightly from Mr. Sproul's oral report in which no mention of a twelve-month bill was made.

R.A.M.

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FEDERAL RESERVE BANK

OF NEW YORK 45

May 8, 1947.

Honorable M. S. Eccles, Chairman,
Federal Open Market Committee,
c/o Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

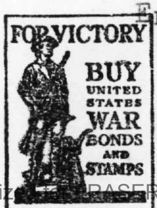
Dear Marriner:

Enclosed is a memorandum I have dictated, covering the meeting of the Executive Committee with Lee Wiggins last week. I thought you might like to have it as a help in bringing yourself up to date on our negotiations with the Treasury.

Yours sincerely,

Allan Sproul, Vice Chairman,
Federal Open Market Committee.

Enclosure



MISC. 3 B.1-50M-11-45

COPY FOR CHAIRMAN ECCLES

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

cc Mr. Rouse

DATE May 8, 1947.

TO The Files

SUBJECT:

FROM Allan Sproul

On Friday morning, May 2nd, I telephoned Mr. Wiggins, Under Secretary of the Treasury, to ask him what progress the Treasury had made in its consideration of the proposals which Mr. Eccles and I had discussed with the Secretary and with him on April 18th. Mr. Wiggins said they had made considerable progress and that he had some ideas that he wanted to discuss with me. I told him that I was in Washington for a meeting of the Executive Committee of the Federal Open Market Committee and asked him if he could come to the Board and have lunch with the Committee. He said that he would.

After luncheon, Mr. Wiggins and the members of the Executive Committee of the Federal Open Market Committee discussed the question of the elimination of the Federal Reserve Banks' buying and repurchase rate on Treasury bills, and Mr. Wiggins raised the question, which is always in the Treasury's mind, of possible future changes in the 7/8 per cent rate on certificates of indebtedness. Mr. Wiggins confirmed what Secretary Snyder previously had indicated -- namely, that the Treasury agrees with our general purpose of eliminating the buying and repurchase rate on Treasury bills, allowing the bill rate to rise until the bill again has some semblance of being a market instrument, and eventually unfreezing short-term rates of interest through abandonment of announced and continuing support of the one-year certificate rate at 7/8 of one per cent. While agreeing with our general purpose, however, the Treasury appears to be greatly concerned as to how it is to be accomplished. They are evidently trying to find some method of making it appear that whatever changes occur are the result of market action or, at least, not of affirmative action by either the Federal Reserve System or the Treasury. This attitude seemed to lead to the two principal suggestions put forward by Mr. Wiggins:

(1) He asked whether it might not be possible to begin issuing six-months bills in refunding outstanding three months bills. Over a period of thirteen weeks this would eliminate the three months bill, and by elimination of the paper to which the buying agreement and repurchase option applies we should have eliminated the arrangement without affirmative direct action to that effect. (At best, this could only partially be so since it would have to be clearly announced that six-months bills would not qualify for the buying rate and repurchase option when within three months of maturity.)

(2) With respect to the 7/8 per cent rate on certificates of indebtedness, the Treasury is very much concerned about having any Government security go below par, and therefore it is very reluctant to contemplate an increase in the coupon rate on certificates. I tried to point out to Mr. Wiggins that certificates are almost always thought of in terms of yield, not of price, and that their term is so short and redemption at par so certain that the question of a price below par does not present the problem it would in the case of longer term Government securities. Mr. Wiggins said this was probably so in the financial centers, but that out at the crossroads the fact that any Government security had gone below par might have

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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 8, 1947.

TO The Files

FROM Allan Sproul

SUBJECT:

serious consequences in terms of faith in the Government's credit.

Mr. Wiggins then threw out two suggestions or questions. He asked, first, whether a twelve-months bill might not be used so that whatever change in rates occurred would be made by the market, not by the Treasury. He also asked whether a sufficient volume of six-months bills might not be issued to replace a substantial amount of certificates of indebtedness as well as the outstanding three-months bills. The idea seemed to be that a reduced supply of certificates would reduce the pressure for a higher rate on certificates.

This whole approach seems unreal to me and to place much too great emphasis on the possible effect on public confidence of the measures we have proposed or think may be necessary in the field of credit policy and debt management. If we are going to shift the emphasis from maintaining the wartime pattern of rates to controlling unnecessary expansion of credit, we want to take some affirmative action; and whatever action we take is going to be recognized for what it is, no matter how we try to disguise it.

The Executive Committee told Mr. Wiggins that it thought his suggestion of a six-months bill to take the place of the present three-months bills is worth study. It gave him no encouragement on the twelve-months bill or on the effectiveness of replacing a substantial amount of certificates with six-months bills. Mr. Rouse at the Federal Reserve Bank of New York, and Mr. Musgrave at the Board of Governors, have been asked to examine these proposals so that we may give Mr. Wiggins our views as soon as possible.

AS:EAV