

April 24, 1946.

Dear Fred:

Enclosed is a self-explanatory release which the Board authorized for publication in tomorrow morning's newspapers on the action of three of the Reserve Banks to get rid of the preferential rate.

As the Board was unanimous in approving this step and since the Board constitutes a majority of the Open Market Committee, I can renew, without any question, the assurance we have already given you that this will not be allowed to affect the rates which the Treasury is paying. And that, in the last analysis, is the only aspect of this matter which has given you any reason for concern.

Sincerely yours,

The Honorable Fred M. Vinson,
Secretary of the Treasury,
Washington, D. C.

Enclosure

ET:b




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

April 25, 1946.

Dear Fred:

You are as weary of this preferential rate subject, I am sure, as we all are, but I could not refrain from sending you this note to say that all of us on the Board were especially gratified by the splendid way in which you dealt with the subject in the statement you gave to the press. Our only uneasiness was for fear the press might try to make this minor matter into an incident, and you effectively stopped that.

Sincerely yours,

The Honorable Fred M. Vinson,
Secretary of the Treasury,
Washington, D. C.

*This not necessary
as I talked
to Fred personally
MVB*

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Z-1836

Statement for the Press

For release in morning newspapers,
Thursday, April 25, 1946.

April 24, 1946.

The boards of directors of the Federal Reserve Banks of Philadelphia, New York, and San Francisco have voted to discontinue the special wartime preferential discount rate of $1/2$ of 1 per cent per annum on advances to member banks secured by Government obligations due or callable in not more than one year. Changes in rates, to become effective at the Reserve Banks, must be approved by the Board of Governors.

The Board has approved discontinuance of the preferential rate because it has served the purpose of facilitating the war-financing program for which it was adopted in 1942. The Board does not favor a higher level of interest rates on U.S. securities than the Government is now paying. Discontinuance of the special rate will not involve any increase in the cost to the Government of carrying the public debt.

The preferential rate encourages member banks to borrow at Federal Reserve Banks in order to hold or to purchase additional Government securities, or to lend to others at low rates for the purpose of holding or purchasing Government securities. While such encouragement was justified early in the war to induce the banks to utilize their reserves more fully in financing huge war expenditures, it has subsequently made for speculation in Government securities and has resulted in unnecessary expansion of the money supply through monetization of the public debt. The Government's program no longer calls for expansion of bank credit to help finance huge war expenditures. Instead, it calls for action that will stop additions to and bring about reductions in the country's monetary supply in order to reduce inflationary pressures. Discontinuance of the preferential rate, therefore, signifies an appropriate adjustment from wartime to postwar conditions in accordance with the Government's program of economic stabilization.