FEDERAL RESERVE BANK

OF NEW YORK 7

December 5, 1944.

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

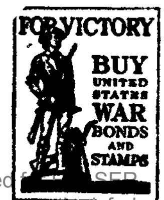
Dear Chairman Eccles:

Enclosed is copy of a letter, with its accompanying memorandum, which Mr. Rouse has written to me in his capacity as Manager of the System Open Market Account and in my capacity as President of the Federal Reserve Bank selected by the Federal Open Market Committee to execute transactions for the System Open Market Account.

I share Mr.Rouse's view that, in order that this bank may have continuing clear authorities, the matter should be considered by the Executive Committee of the Federal Open Market Committee at its next meeting. I am, therefore, sending you enough copies of the letter and enclosure to distribute among the members of the Committee - both those at the Board and Mr. Leach - and hope that you will place the subject on the agenda for next week.

Yours sincerely,

Allan Sproul,
President.



Encs.

December 4, 1944.

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Mr. Sproul:

While the attached memorandum was in course of preparation, the Treasury had occasion to review the rates of the regular monthly financing of the Federal Intermediate Credit Banks and also some private financing of the Federal Home Loan Banks. In each case the rates proposed by the fiscal agents of these banks after consultation with the market were higher than for similar financing last June and the reason for the increased rates was the higher level of yields on Treasury certificates. As a result of this review, Mr. Bell told me that he was considerably disturbed, and that he thought we were not doing our job, based on the Treasury's understanding of our commitment to maintain the "pattern" extending from Treasury bills at 3/8 per cent to the 2 1/2 per cent bonds.

If we are not to maintain the "pattern" in certificates (in a general way) it seems to me that the Treasury must be brought into agreement with our policy and instructions to this Bank and through it to the Manager of the System Account should be made clear on this point. Both we and the Treasury will then have to recognize that except for our participation, the Treasury bill is finished as an instrument of new financing, if indeed that is not already the case. Perhaps the only remaining issue, so far as bills are concerned, is whether to hasten their elimination from the market by encouraging borrowing on certificates and allowing certificate yields to remain at present relatively high levels, or to maintain a broad market in certificates at lowering rates as maturity is approached, at the cost of nominal premiums. The rates for certificates beginning at 1/2 per cent for three months suggested in the attached memorandum should be acceptable to the Treasury and should not change our operations materially except that occasionally relatively moderate sums might be put into the market solely for the purpose of maintaining the "pattern".

There is also involved, of course, the broader question of whether or not short-term rates of interest should not be higher than the original "pattern of rates" line, an increase which, in fact, our operations have permitted.

In the circumstances, I suggest that the executive committee consider this matter at its next meeting.

Yours faithfully,

(Signed) Robert G. Rouse, Manager,
System Open Market Account.

Encl.