

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

July 31, 1945.

The Honorable Fred M. Vinson,
Secretary of the Treasury,
Washington 25, D. C.

Dear Mr. Secretary:

This is to acknowledge your letter of July 27 with regard to the two letters which Chairman Eccles sent to Secretary Morgenthau on July 9, 1945, together with the memorandum prepared by the Executive Committee of the Federal Open Market Committee.

As you are aware from our conversations, it is the unanimous feeling of all of the Federal Reserve Banks and of the Board that member banks should no longer be enabled under the so-called preferential discount rate to borrow at 1/2 of 1 per cent and increase their holdings of medium-term higher rate securities when, as we all agree, it is desirable to limit bank purchases of Government securities to the minimum necessary to supply war financing funds not otherwise raised from nonbank sources. Similarly, we felt that we had a statutory responsibility to bring the matter up at this time, when Treasury balances are particularly large, excess reserves are high, and member bank borrowings are low.

While we do not regard the proposed step by itself as one of major importance, I would share your concern if we felt that it would be interpreted, particularly at this juncture, as an indication that the Government had abandoned its low interest rate policy and was now veering in the direction of higher rates. That, of course, is not the purpose and we are confident would not be the result. Indeed, I believe that it would have the ultimate effect of reducing the cost of financing to the Treasury.

However, I fully appreciate your feeling about the matter at this time and your desire to review thoroughly the whole picture of Government borrowing operations before making decisions with respect to future war loans. As you point out in your letter, you will wish to give careful consideration to the changes in borrowing technique which are suggested in the Executive Committee's memorandum, and, as I need not add, we shall welcome the opportunity to discuss these proposals further with you whenever you wish to do so. As you say, we must work together as a single team in financing the war in the best possible manner, and I assure you that on our part that aptly expresses our own desire.

May I mention one minor detail in your letter. Your reference to our talk over the telephone on Monday refers, I think, to the conversation which I had with you and Under Secretary Bell in your office on July 23.

Meanwhile, we of course acquiesce in your desire to defer the suggested action until you have had adequate opportunity to review the entire subject of Government borrowing operations and to discuss with us the related aspects of money market and bank credit conditions.

Because the matter is one in which the Federal Open Market Committee has a direct concern, a copy of your letter has been referred to Mr. Sproul, who is Vice Chairman of that Committee.

Sincerely yours,

(Signed) Ronald Ransom

Ronald Ransom,
Vice Chairman.