Geo. D. McClintock, President
I. C. McClintock, Vice President

J. W. Moffatt, Cashier
C. I. Borgen, Ass't Cashier

MERCHANTS BANK

Established 1897

12/30/47

~~Rugby, North Dakota~~
1929 Knox Avenue South
Minneapolis 5, Minnesota

Mr. Mariner S. Eccles, Chairman
Federal Reserve Board
Washington, D. C.

Dear Mr. Eccles:

I have been somewhat disturbed by the movement of Government bond prices in the last few weeks. We have been pretty careful about getting any considerable amount of long-term bonds. I am not sure that others have been so cautious. However, if the Government has been supporting the price during the time that we were buying the bonds for investment, I think it would be unfortunate if the Government should now step out and let the market seek its own level. It may be that it would have been better to let the market find its own level at the beginning. However, I suppose that during times of war and other emergencies that those controlling the fiscal policies of the Government should be in a position to, and should, check major swings that are sharp in nature.

In any event, if the Government has been in the market and maintained prices which reduced our yield at the time we were making the investments, I don't think it should now step out and put us in the position where we have to sell and take a heavy loss.

I would appreciate very much your views about the matter.

Assuring you I will appreciate very much your courtesy and with kindest personal regards, I beg to remain

Yours very truly,

GDM/dd

Geo D McClintock

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Federal Reserve Bank of St. Louis

December 30, 1947.

Mr. Geo. D. McClintock,
1929 Knox Avenue South,
Minneapolis 5, Minnesota.

Dear Mr. McClintock:

As Chairman Eccles is spending the holidays in Utah, I wish to acknowledge your letter in regard to Government bond prices. May I call your attention to the marked paragraph on page 5 of the enclosed copy of the statement which Mr. Eccles made before the Joint Committee on the Economic Report, a reading of which will, I think, reassure you.

As you will recall, the spread between the so-called pattern of rates during the war was so wide that it amounted to an open invitation to banks to sell their short-term securities and to buy the longer term, higher yielding Governments with resultant heavy pressure on the long rates, driving prices up and yields down. It was primarily with a view to discouraging this practice and thus to take the pressure off the long-term rate that the Open Market Committee, in consultation with the Treasury, permitted bill and certificate rates to rise somewhat from their wartime levels. Subsequent to Mr. Eccles' testimony a further step was taken to adjust intermediate rates between the certificates and the long-term 2-1/2 per cent bonds. However, it is probably evident to you from market operations that the readjusted support levels are not a part of any plan or purpose to allow a repetition of the experience after World War I, i.e., "to let the market seek its own level."

I am sure Mr. Eccles would agree entirely with your premises.

Sincerely yours,

Elliott Thurston,
Assistant to the Chairman.

Enclosure

ET:b

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~~Rugby, North Dakota~~
1929 Knox Avenue So.
Minneapolis 5, Minn.

January 5, 1948

Mr. Elliott Thurston,
Assistant to the Chairman,
Board of Governors
Federal Reserve System
Washington, D.C.

Dear Mr. Thurston:

Thank you very much for your letter of December 30 with respect to operations of the Open Market Committee.

I am enclosing a clipping from the Chicago Journal of Commerce published the latter part of December. I do not have the date. You will note that it contains this statement - "New prices fixed by the Fed, as the floor at which it will buy any amount of offerings include the following:" followed by prices for various issues. I am also enclosing an editorial by Arthur Upgren which I have clipped from the January 4 Minneapolis Sunday Tribune. You will note that Mr. Upgren apparently feels that the price of Government bonds should be freed and that the freeing of such prices will have a tendency to assist the fight against inflation.

I do not have sufficient knowledge about such matters to know whether either statement may be accepted at face value. It would seem that if the Chicago Journal of Commerce statement were accepted, one could sell all of his short bonds and buy the long ones with a feeling of confidence that when a depositor asked for his money he would be able to sell them at, or very close to, the prices indicated in the clipping. Although this is a very small bank with a million dollars in bonds maturing in '48 for the purpose of meeting any withdrawals that may be made, I wouldn't feel easy if we sold those and relied upon the assurance contained in the Chicago Journal of Commerce. On the other hand, I don't feel that we should sell the few long-term bonds that we purchased with the expectation of carrying them to maturity upon the assumption that the price will be entirely freed and there will be a sharp drop.

This bank is not a member of the Federal Reserve System. For that reason we do not have occasion to follow Reserve Regulations

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as closely as we otherwise would. However, if you have in pamphlet form a copy of the Federal Reserve Statute and the current regulations, I should be very glad to have them.

Again thanking you for your courtesy, I beg to remain

Yours very truly,

Geo McClintock

GDM/dd
Enc. 2

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Federal Reserve Bank of St. Louis

January 12, 1948.

Mr. Geo. D. McClintock,
1929 Knox Avenue South,
Minneapolis 5, Minnesota.

Dear Mr. McClintock:

In accordance with your letter of January 5, I am enclosing a copy of the Federal Reserve Act. Unfortunately, there is no specific material available on current open market policy, but I enclose also a copy of the rules and procedure governing the Open Market Committee.

I wish I could be helpful in commenting on the clippings which you enclosed. They are, of course, journalistic interpretations or expressions of opinion and have no official significance. I gather that the clipping from the Chicago Journal of Commerce merely gives the current day-to-day market quotations or support levels as of that particular day. Even if I knew what those levels were going to be, I would not be at liberty to say.

Sincerely yours,

Elliott Thurston,
Assistant to the Chairman.

Enclosures 2

ET:b

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The citation for the original is:

Upgren, Arthur. "How Fixing One Price Sends Others Higher." *Minneapolis Sunday Tribune*, January 4, 1948.

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