Mr. Eccles

Z-2914

FEDERAL RESERVE BANK OF NEW YORK

December 20, 1950.

Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

S i r s :

At the meeting of our executive committee last Thursday, there was some discussion by our directors of the prospective program of the Treasury Department to promote the sale of United States Savings Bonds during 1951. This letter is written to reflect their and our views on this subject, and to suggest that, if the Board agrees, it might appropriately bring those views to the attention of the Treasury Department.

Virtually all the plans and much of the discussion of the savings bond program have proceeded upon the principle of the automatic extension at maturity of existing Series E Savings Bonds (subject to the basic right of cash payment as a bond matures). Most plans differ only as to the details of the period of extension, the payment of interest - whether simple or compound - and future redemption terms. These plans, however, involve a tacit acceptance of the major features of existing Savings Bonds and the main elements in the present Savings Bond program, thus reflecting a readiness to formulate plans for refunding and new sales within the general framework that now exists. This confident assumption that the Series E Bond will be adequate for refunding purposes and as a medium for stimulating and attracting savings in its present form, with only minor modifications, might well prove mistaken, if not dangerous, in view of prospective defense needs and military commitments. In the kind of economic situation that lies ahead, it is becoming extremely uncertain whether it will be possible, or politically feasible, to raise through taxation sufficient funds to maintain a balanced budget when defense expenditures mount rapidly. If not, it will be of the utmost importance to have debt instruments capable of exerting a strong pull on the funds of nonbank investors in order not only to get the money needed, but to borrow it from the right sources; in the case of Savings Bonds from the general public. We already have the makings of a problem in maintaining the current position of the Savings Bond program. The evidence shows that the Series E Bond has been losing ground relative to time deposits and savings and loan shares since 1945, while becoming increasingly concentrated in the hands of the larger investors.

In these circumstances, it would seem that the Treasury Department should review in broad terms the entire position of the Savings Bond program and consider redesigning the type of issue which it proposes to offer for original investment, with a view to broadening its general

appeal. Once redesigned in the light of current needs, such a bond should be actively promoted with a well financed sales campaign even if that means entirely new sales techniques as well as a new sales organization. If this course is followed, and includes a new "product" consideration of automatic extension should either be deferred or regarded as a mere stop-gap expedient until such time as it can be fitted to a new Savings Bond of the Series E variety.

Apart from the problem of redesigning the product, and revitalizing the sales program, there will continue to exist, of course, the fundamental problem of maintaining public onfidence in E bonds or in any form of saving - the purchasing power of the dollar. An obvious prerequisite to the preservation of that confidence lies in the effective use by Government, of all the measures at its disposal to remove the sources of inflationary pressures while interfering as little as possible with output and productivity. Unfortunately, we seem to be veering toward repressing the evidences of inflation and losing some of our zeal for stern fiscal and monetary measures.

Yours sincerely,

(Signed) Allan Sproul

Allan Sproul,
President.