



OFFICE OF
THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

June 10, 1946

Dear Mr. Eccles:

At the request of the Under Secretary, I am sending you a copy of his memorandum for the Secretary of April 4, 1946, on the subject of the offering and distribution of Federal Farm Loan Bonds.

Sincerely yours,

A handwritten signature in cursive script that reads "Karl Price".

Karl Price
Assistant to the Under Secretary

Honorable Marriner S. Eccles
Chairman, Board of Governors
of the Federal Reserve System
Federal Reserve Building
Washington, D. C.

Enclosure

April 4, 1946

MEMORANDUM FOR THE SECRETARY:

On yesterday I heard Chairman Eccles of the Federal Reserve Board and Mr. Bartelt on the issue of having Federal Reserve Banks act as fiscal agents for the offering and distribution of Federal Farm Loan Bonds. Previous to this hearing, it was my view that the Federal Reserve Banks should act in this capacity, largely because of the savings in commissions which would accrue to the Federal Land Banks. However, having heard the arguments on both sides and read all available material before me on this subject, it is now my view that for the Federal Reserve Banks to act as fiscal agents in offering and distributing other than the direct guaranteed obligations of the United States would mark a distinct departure from long established procedure. I am not prepared to recommend this. I feel further that the Government's direct or guaranteed obligations, which are eligible for open market operations, are and should be differentiated from and not combined with, bonds of other agencies.

At this time there is a ready market for these bonds, and there has been no suggestion that the established and recognized machinery which is necessary to the functioning of capital markets has failed or has proved inadequate.

I therefore do not recommend the transferring of these operations to the Federal Reserve Bank and thereby have public instrumentalities assume unprecedented private functions. If it is the purpose of the Administration to undertake to have the Federal Reserve Banks act as fiscal agents on behalf of the Federal Farm Loan Bonds, it seems to me that it would naturally follow that the Reserve Banks would also be expected to perform a like service for the International Bank, for the Home Loan Bank system and for the United States Housing Authority. It is contended that bonds of these agencies are backed by the credit of the Government, and this is true to a degree, and the Government would probably, if necessary, support the market. Nevertheless, I do not believe that this is the proper time to make this vital decision. If the time ever comes when the Government would decide to guarantee the bonds of these agencies, the effect, it seems to me, would be to add that much additional burden and obligation to the National debt.

In the final analysis, the immediate issue in this controversy is the saving of payment of commissions to private investment bankers

who have always handled these issues. I am as anxious as any citizen and taxpayer to save every dollar of unnecessary expense, but there is something more fundamental involved in this issue than the immediate savings that may be involved. These savings, in my opinion, would not warrant the establishment of a precedent that I deem unsound.

Respectfully submitted,

/s/ O. Max Gardner

Under Secretary of the Treasury