BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 6, 1943

To Chairman Eccles

Subject: Suggested changes in Treasury bills

From Woodlief Thomas

I understand that you are proposing the substitution of a 9-months bill at 3/4 per cent for the present 3-months 3/8 per cent bill and the 1-year 7/8 per cent present certificate. I also understand that you are contemplating some device by which the Federal Reserve will not profit by this increase in short-term rates. In this connection I should like to suggest the following procedure for putting these proposals into operation:

1. At the beginning the Treasury would offer about 500 million dollars of 9-months bills and 500 million of 3-months bills. The amount of 9-months bills could be increased as occasion arose.

2. The System, while establishing a buying rate of 3/4 per cent on the 9-months bills, would continue for the present the 3/8 per cent rate on 3-months bills.

3. The System would subscribe directly at 3/8 per cent for all of the 3-months bills offered by the Treasury. There might be other bidders for the 3-months bills, but presumably other investors would mostly purchase the 9-months bills which offer a higher rate.

4. The System would abandon its 3/8 per cent buying rate on bills maturing within 3 months at the end of 3 to 6 months. This would prevent the development of premiums on 9-months bills as they approach maturity and the playing of the pattern of rates. The System, however, would continue to bid for new issues of 3-months bills at 3/8 per cent to replace maturing issues. It probably should be announced in the beginning that the 3/8 per cent rate would never apply to 9-months bills.

Under this procedure, the System could maintain a portfolio of about 6 billion dollars of 3-months Treasury bills at 3/8 per cent and purchase such additional 9-months bills at 3/4 per cent as may be offered by banks to obtain additional reserves or to meet currency demands. The amount of 9-months bills would be gradually increased to the level needed for replacing existing issues of bills and certificates, or to any other desired level.

This proposal would smooth the transition period, would inaugurate the plan of direct replacement of bill maturities, and would absolve the System of acting for the purpose of increasing its earnings.

This plan has been discussed with Mr. Goldenweiser and Mr. Piser and they concur in the suggestion.

W.T.

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