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To: Chairman Eccles

Bank holdings of Government securities

From: L. M. Piser and D. M. Kennedy

Commercial banks and the Federal Reserve Banks increased their holdings of Government securities by an estimated 15.6 billion dollars during the first seven months of 1944. This represented 39 per cent of the increase in the debt. Of the increase in holdings by the banking system, 5.1 billion dollars occurred during January and February in connection with the Fourth War Loan, and 9.6 billion occurred during June and July in connection with the Fifth War Loan.

According to present estimates of Treasury receipts and expenditures, requirements will be slightly lower as a result of cut-backs in the war program. The Sixth War Loan in November and December, therefore, will need to be about the size of the Fourth War Loan, in the neighborhood of 17 billion dollars, rather than as large as the Fifth War Loan, when 21 billion was raised. If effective steps are taken to reduce speculative purchases and the sales organization places more pressure on nonbank investors, there is no reason why the increase in bank holdings during November and December cannot be reduced considerably below the 5.1 billion increase during the Fourth War Loan. As a matter of fact, in view of the tremendous amount of funds available in the hands of nonbank investors, almost the entire amount to be raised in the drive should come from nonbank investors, and banks should be kept out almost completely. The actual result will, of course, fall short of the ideal. Assuming that the increase in bank holdings is reduced during the Sixth War Loan to 3 billion dollars and that between the end of July and the beginning of the drive the increase is 2 billion, the total for the year would amount to 21 billion and would represent 37 per cent of a 57 billion increase in the debt during the year. Early this year, the Treasury estimated that holdings by the banking system would increase by 22 billion dollars, compared with an estimated 60 billion increase in the debt during the year, or again about 37 per cent.

In addition to the proposals made by the Executive Committee to the Treasury to reduce speculation in the next drive, one important way of reducing commercial bank purchases during the drive would be for the Federal Reserve to sell aggressively during the drive in order to meet commercial bank demand and absorb a large part of the reserves provided by the shift in deposits to war loan accounts. By this means, the Federal Reserve would provide a large part of the commercial bank demand without increasing the holdings of the banking system as a whole. Of course, the Treasury would oppose this suggestion on the grounds that Federal Reserve sales would hurt the tone of the market.

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