Good ~~morning~~

FEDERAL RESERVE BANK

OF NEW YORK

October 2, 1934.

Dear Mr. Coolidge:

For your information I am enclosing herewith a copy of a memorandum which was prepared by and sent to me by Mr. George N. Lindsay of Speyer and Company relative to the distribution of United States Government bonds.

This is the memorandum about which I talked to you over the telephone and which I said I would send to you. Perhaps we can talk about it when I see you in Washington on Friday.

Faithfully yours,

Geo. L. Harrison

Hon. T. J. Coolidge,
Undersecretary of the Treasury,
Washington, D. C.

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DISTRIBUTION OF UNITED STATES GOVERNMENT BONDS

The recent decline in quotations for United States Government long-term direct and guaranteed obligations attracts more than usual notice because it happens to coincide with a refunding operation. The incident, however, serves to emphasize a lack of any organized effort to suggest to moderate and smaller investors - and in fact the non-institutional investors generally - the desirability of including a proper proportion of long-term Governments in investment portfolios. The Government's program calls for the sale of long-term bonds on something approaching a war-time scale and in the past such large distribution has required great public effort on a volunteer basis. The present situation does not require extreme action of that kind. It is believed that there is a middle ground which might be adopted - a reasonable stimulation of the public demand.

A consistent effort to bring about this stimulation would relieve the banks of an impression that they, alone, are expected to carry the long-term as well as the short-term load. The losses which banks have suffered in long-term obligations in the past have been such that an element of nervousness, whenever there is a marked declining tendency in the Government list, is natural and unavoidable. The fact that the bonds may have direct Government support does not entirely reassure banks because of a fear that there are no other buyers. Consequently, the effect on the banks of a campaign directed to the public would be beneficial not only to the extent of actual results, but also in its psychological influence.

The investment banking machinery, either among the private firms or the banks which still maintain distributing organizations for exempt securities, is not being effectively enlisted. The distributing organizations are almost entirely composed of men who have to live on commissions and, much as they might like to place Government bonds, they simply cannot afford to do so. It is believed that the banks, themselves, and the private banks and investment bankers would be glad to cooperate and would not expect to make any real profit provided they could be in a position to give the salesmen a small cash commission and to have a fractional percentage for themselves to cover the cost of handling. As a matter of policy, they would be content to encourage their organizations to keep thinking about and working on Governments as well as on Municipals and other issues on which they depend for their main profits. It is understood that in England the Government customarily allows brokerage commissions for subscriptions to Government issues. It is believed that it would be advantageous here not to confine such arrangements to new issues but to allow constant commissions on bonds sold in the market by reputable houses and institutions, operating under a group of nationally known houses and institutions. The sales could be reported through this central group to the Treasury Department, which would have complete control of the market and could fill the orders either by portfolio or by direct Treasury purchases in the market, as might seem most desirable. Under such conditions, daily Treasury purchases would then not be regarded as necessarily direct support by the use of Government funds.

The whole arrangement should be confined to the long-term market and could be discontinued at any time or extended to include new long-term issues if thought desirable. It should be accompanied by a continuous advertising campaign conducted by the national group. Assuming that the compensation allowed would be held down strictly to a minimum figure, include a commission for salesmen and a handling charge for the house or bank, the expenses of the advertising campaign would be borne direct by the Government. If preferred, allowance for it could be made in the handling fee for this group.

In general, the plan would correspond with that set up in behalf of the Home Owners' Loan Corporation last year and later abandoned when it was thought that the guarantee of principal as well as interest on the Home Owners' Loan Corporation would eliminate the necessity of such special treatment.

N:GNL
September 19/1934.