

August 23, 1937.

MEMORANDUM:

TO - Mr. Taylor
FROM - Chairman Eccles

As I will not be here during the final consideration of the September financing, I told the Secretary that before I left, I would leave a memorandum for him covering broadly and in a general way my views of the situation as they existed at the time I left.

I am, therefore, enclosing such a letter, which I will appreciate your bringing to the attention of the Secretary at the proper time.

enclosure

MSE:VE:b

August 21, 1937.

My dear Mr. Secretary:

On the basis of present conditions, it is my belief that it would be advisable in the September financing to issue Treasury notes in exchange for the maturing notes and to raise no additional cash.

From the present cash position of the Treasury and budgetary prospects it appears that, if no cash is raised in the September financing, the working balance will decline to a minimum of around \$550,000,000 at the end of October and will amount to about \$600,000,000 at the end of November. This estimate assumes purchases of \$400,000,000 of gold between the middle of August and the end of November and the issuance of a similar amount of Treasury bills to mature around the March tax date. Additional cash can be raised at the time of the December financing if necessary. If purchases of gold exceed the \$400,000,000 mentioned above, the inactive gold account will approach \$2,000,000,000. Under these circumstances, it will likely be not only desirable but necessary to find some other way to deal with the gold import problem.

In refunding the September notes it does not seem to me that the market would be receptive to an issue of bonds. Member banks are still liquidating Government securities, and it is understood that some of them are anxious to sell the long bonds in particular on favorable markets, since their holdings are still at a relatively high level.

As to details of the new issues, notes maturing in about five years, either in June or September, 1942, or an issue maturing in December, 1938, might be offered in exchange for the maturing notes. Or the holders of maturing notes might be given the option to exchange for either of these issues. I do not feel that I can at this time express an opinion as to which of these alternatives would be most desirable, since that will depend, of course, on market conditions at the time of the announcement.

Sincerely yours,

M. S. Eccles,
Chairman.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

MSE:LMP:B