March 18, 1942.

Dear Dan:

This is a copy of the memorandum received this morning from Allan Sproul relative to the Treasury financing program which we discussed with you yesterday. I believe that it expresses in general the views of the Executive Committee of the Open Market Committee.

Sincerely yours,

Honorable Daniel W. Bell,
Under Secretary of the Treasury,
Washington, D. C.

Enclosure

MSE:VE:b

COPY

Form F. R. 511

TO Governors McKee, Draper, and Evans

FROM Chairman Eccles

REMARKS: 3/18/42

This is a copy of the memorandum covering financing which I requested Mr. Sproul on yesterday to send down to us. I should like to send this over to the Treasury as promptly as possible, advising them that this in general expresses the views of the Executive Committee of the Open Market.

Let me know if you have any objection to my doing this.

M.S.E.

CHAIRMAN'S OFFICE

C O P Y

TELEGRAM

ECCLES, CHAIRMAN,
FEDERAL OPEN MARKET COMMITTEE
C/O BOARD OF GOVERNORS

This is the statement which you requested I send to you:

"The general programs suggested by the Treasury seems to us to be incompatable with the primary objective of obtaining the largest possible amount of funds outside of the banking system. By pegging short-term interest rates at a low level or increasing the volume of excess reserves, or both, it would increase the inducement to the banks to invest in Government securities and lessen the inducement to other investors. This is the reverse of what we are trying to accomplish.

If the Treasury is not yet ready to decide upon a complete program for financing the war effort, and wishes to proceed step by step, we believe it should avoid taking steps such as those now proposed, which in combination and by implication would seem to commit it to a program involving:

(A) A pegged short rate of interest at a low level. The posting of a bill rate of .26 percent by each of the 12 Federal Reserve Banks would be such a pegging operation.

(B) Maintenance of a large volume of excess reserves. An attempt to increase excess reserves in New York would almost inevitably involve the maintenance in New York and in the country of a larger volume of excess reserves than is necessary or desirable.

(C) Use of open market issues rather than tap issues in seeking funds from investors other than banks. A statement in connection with an issue of certificates of indebtedness, stressing the fact that these certificates are offered as a medium of investment for idle business funds would imply that this is the way which has been chosen to reach non-bank investors.

We would suggest that, for the present, and until a more complete program of financing has been determined by the Treasury, the most appropriate next step would be to increase the weekly offering of Treasury bills to at least $200,000,000 per week. If this were done, we are sure that the Federal Reserve System, through its Federal Open Market Committee, would begin building up its portfolio of bills as soon as the rate reached .25 percent and would increase its buying pressure until the rate reached .375 percent, at which rate it would hold the market, if necessary, until there had been a further determination of procedure in consultation with the Treasury. The explanation of the increased offering of Treasury bills would be the simple one that it is designed to give increased fluidity to the money market and to make excess reserves effective wherever they are located.

An offering of certificates of indebtedness could then be made in due course when additional funds are needed by the Treasury. If, however, the Treasury wishes to make some announcement concerning a future issue of certificates of indebtedness, at the same time that the Treasury bill offerings are increased, this could be done. We think it would be better not to name the rate and maturity, however, but merely to state that the certificates of indebtedness would supplement the increased bill issue in providing the money markets of the country with a type of obligation now lacking in insufficient volume to provide the needed mobility of funds.

It is our view that until there has been a further determination of a more complete program of Treasury financing, this would be the best procedure."

3/17/42 SPROUL.