July 3, 1942.

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

Dear Dan:

The attached is a copy of a memorandum which I left with the Secretary this morning, outlining the recommendations of the Executive Committee of the Open Market Committee, the title "A Specific Financing Program for July, August and September".

I would greatly appreciate it if you, George Haas, and other members of the staff would study our recommendations prior to a meeting which I hope we can have sometime week after next for the purpose of trying to get together on our suggested program or some modification of it so we can make some definite recommendations to the Secretary as early as possible.

Sincerely yours,

Enclosure

MSE:VE:b

TREASURY FINANCING

Confidential

A total of 6 billion dollars will have to be borrowed by the Treasury in the next three months in order to meet requirements. This estimate allows for receipts from special issues to trust accounts, from war savings bonds, from tax notes, and from the weekly issuance of 300 million dollars of bills.

The following specific financing program is suggested for the three-month period:

1. Intermediate Treasury bonds. An offering would be made on or about July 8 of 2.0 billion dollars of Treasury bonds. Various alternatives for this financing are given below.

2. Treasury bills. The weekly offering would be increased to 350 million dollars for the issue dated July 22 and possibly to 400 million dollars for the issue dated August 5. Although a substantial part of the offering dated July 1 was taken by the System Account, this may be attributed largely to the fact that the entire 300 million dollars constituted new funds. It would appear preferable to continue the 300 million dollar offering for the issues dated July 8 and 15 and to increase the offering to 350 million dollars for the issue dated July 22. After two weeks at the 350 million dollar level the offering possibly could be raised to 400 million dollars. By the end of September this source would have provided 1.0 billion dollars of funds.

3. Long registered Treasury bonds. An additional open-end issue of registered 2 1/2 per cent bonds would be announced before the beginning of trading in the present issue on July 6. In order to avoid confusion in the market the date of this issue might be advanced to September 1962-67 or the 60-day prohibition on trading might be eliminated. The books would be opened within a few days after the closing of the books on next week's offering and would be kept open until some time in September. This issue would provide between 500 and 750 million dollars.

4. Short nonmarketable Treasury notes. An open-end issue of short nonmarketable notes would be offered as soon as the Treasury can complete the necessary preparations. This might be about the first of August. The books would remain open indefinitely, as is the case with savings bonds and tax notes. It seems likely that from 1.0 to 2.0 billion dollars could be raised through this issue by the end of September. This issue as well as the long registered bonds would be actively promoted by the Victory Fund Committees.

5. Certificates of indebtedness. Although the market for certificates is easier at the present time, an issue of 1.5 or 2.0 billion dollars probably could be sold in September. The amount of the offering would depend in part on the amount of funds raised in the interim

through the other sources mentioned above. As the maturity of certificates is gradually increased to a year with a resultant increase in the coupon rate, these issues will become more attractive to commercial banks outside of the large cities and to investors other than commercial banks.

This program is tabulated below. The smaller amounts shown in the range would raise 6.0 billion dollars, and the larger amounts would raise 7.75 billion dollars.

Period	Issue	Amount (In billions of dollars)
July	Intermediate Treasury bonds	2.0
July - Sept.	Treasury bills	1.0
July - Sept.	Long registered Treasury bonds	.5 - .75
Aug. - Sept.	Short nonmarketable Treasury notes	1.0 - 2.0
Sept.	Certificates of indebtedness	1.5 - 2.0
	Total	6.0 - 7.75

Regarding next week's financing the following suggestions are made:

1. A single issue instead of two issues would be in the direction of keeping the number of individual issues at the lowest possible point and would avoid the market difficulties that sometimes arise when two issues of different attractiveness are offered at the same time.

2. The single issue might be of 2, 2 1/8, or 2 1/4 per cent bonds. Since there is a large amount of bonds that are due or callable in the period where 2 per cent bonds offered at par would fall, such an issue would have some disadvantage. From the point of view of the Treasury's maturity distribution 2 1/4 per cent bonds would be desirable, but since they would be callable in more than 10 years and would mature in more than 12 years they would be slightly long for commercial banks, who will be the principal market in this financing. One solution would be to offer 2 per cent bonds of March 1950-52 at a slight discount. Such an innovation would be popular with investors, who have a preference for discount issues. One objection would be the possible psychological effect of a Treasury offering at less than par. Perhaps the best solution would be 2 1/8 per cent bonds, which would be callable early in 1951, a period in which there is a relatively small amount of outstanding issues and a period also that would be more suitable for commercial bank investment.

3. If two issues are offered, the second issue might be of notes of about three or four years. Notes with a coupon rate of 1 1/4 per cent would fall in about June 1945 and would be attractive to commercial banks. Instead of announcing the amount that will be allotted on each issue, it would seem preferable to announce the total amount only and to allot each issue in accordance with the amount of subscriptions received on each issue.

4. It is suggested that subscription rules should not be applicable to this offering, except that full allotment should be given to subscriptions of $25,000 or less.

This program is designed to obtain outside of the commercial banking system the largest possible proportion of the required 6 billion dollars. A considerable part of this would be accomplished by the issue of nonmarketable notes. The existing amount of reserves could be made more effective by increasing the demand from smaller banks and an additional amount could be obtained from investors other than commercial banks if the buying rate on new issues of bills should be increased to 1/2 of 1 per cent. This could be done with the least disturbance after next week's offering is subscribed and the secondary distribution largely completed. The rate on issues already outstanding at the time of the increase would remain at 3/8 of 1 per cent.

If the program that is adopted should result in a substantial amount of purchases by commercial banks, it would appear necessary for the System Account to purchase a substantial amount of securities or for the Board to reduce the reserve requirements of central reserve city banks. From the point of view of reducing the inflationary effect of Government financing it would appear preferable to offer all of the various types of securities mentioned in the early part of this memorandum. The Victory Fund Committees would actively promote the sale of these securities. The suggested increase in the bill buying rate would be another anti-inflationary factor. After all methods of reaching investors other than commercial banks had been tried and the largest possible amount of funds obtained from these investors, it would then be possible to determine the amount of securities that it is absolutely necessary for commercial banks to purchase. In that event a program could be developed for whatever open-market operations, or reduction in reserve requirements, or both as would be necessary to assure the success of the war financing with the smallest possible inflationary effect.

CONFIDENTIAL

July 2, 1942

TREASURY REQUIREMENTS AND FINANCING FOR FISCAL YEARS 1942 AND 1943
(In millions of dollars)

	1942								1943	Fiscal years	
	March	April	May	June	July*	Aug.*	Sept.*	Oct.-Dec.*	Jan.-June*	1942	1943*
War activities	2,797	3,231	3,553	3,823	4,000	4,300	4,500	15,300	34,900	25,954	63,000
Total budget expenditures.	3,421	3,753	3,953	4,530	4,600	4,700	5,000	16,800	37,900	32,397	69,000
Current individual income tax.	1,457	132	12	800*	30	20	720	680	3,200	3,200*	4,600
Current corporation income tax	832	44	84	750*	60	40	720	880	2,200	2,750*	3,900
Excess-profits tax	728	46	75	500*	50	30	630	770	2,800	1,550*	4,300
Back and unjust enrichment taxes	56	73	33	50*	30	30	20	70	300	450*	500
Total income taxes	3,083	335	216	2,086	200	100	2,100	2,400	8,500	7,960	13,300
Miscellaneous internal revenue	364	305	270	298	400	300	400	1,100	2,000	3,847	4,200
Other.	100	55	77	108	--	100	100	200	600	992	1,000
Net budget receipts.	3,547	695	563	2,492	600	500	2,600	3,700	11,100	12,799	18,500
Budget deficit	-126	3,058	3,391	2,037	4,000	4,200	2,400	13,100	26,800	19,598	50,500
Budget deficit after proposed new taxes.	-126	3,058	3,391	2,037	4,000	4,200	2,400	11,100	21,800	19,598	43,500
Net expenditures by Government corporations	68	189	430	298	200	200	200	600	1,300	1,814	2,500
Other net expenditures or receipts (-) .	186	54	-369	386	--	--	--	--	--	135	--
Total requirements	128	3,301	3,452	2,721	4,200	4,400	2,600	11,700	23,100	21,547	46,000
Special issues to trust accounts	143	24	160	367	200	100	200	1/1,400	1/2,900	1,765	1/4,800
War savings bonds.	543	515	618	619	1,000	1,000	1,000	3,000	6,000	5,874	12,000
Depositary bonds	2	2	1	1	--	--	--	--	--	79	--
Tax notes.	-271	208	355	-85	250	250	-200	100	200	3,015	600
Treasury bills	-349	301	303	252	1,050	300	50	--	--	905	1,400
Other direct securities.	-22	1,507	2,175	1,587	1,720	2,750	1,550	7,200	14,000	9,725	27,200
To refund guaranteed securities.	--	--	--	1,119	--	--	--	300	300	2,230	600
Guaranteed debt.	-7	--	--	-1,118	--	--	--	-300	-300	-1,811	-600
Change in interest-bearing debt.	38	2,557	3,612	2,742	4,220	4,400	2,600	11,700	23,100	21,770	46,000
Change in Treasury cash balance.	-90	-744	+160	+21	+20	--	--	--	--	+223	--
Treasury cash balance at end of period .	2,544	1,800	1,960	1,981	2,000	2,000	2,000	2,000	2,000	1,981	2,000

* Estimated.

1/ Including proposed new social security receipts to be invested in special issues.