Confidential

Feb 8, 1943

Secretary Morgenthau

Mr. Haas

Subject: April Financing

SUMMARY

1. The first section of this memorandum outlines a suggested financing program designed to yield $15 billions during April 1943. This program should provide a volume of funds sufficient to carry the Treasury until summer, and is designed to tap the sources of funds set forth in our memorandum entitled "Sources of Funds for Federal Borrowing, Calendar Year 1943." A tabular summary of the program is set forth on page 2 of this memorandum. Its objectives and the details of its component parts are more fully described in the pages that follow.

2. The second section of this memorandum discusses a number of technical matters and policy decisions which require some attention during your consideration of the April financing program.

I. General Outline of the Suggested Program

The financing program set forth below is designed to raise $15 billions of new money during April. Inasmuch as the total amount required to finance the deficit and the other Treasury needs during this month will be only $7 billions, this program will provide a margin of $8 billions over cash requirements. This margin plus (1) the prospective working balance on April 1, (2) the amounts of new money acquired in connection with the regular bill refundings in May, June and July, and (3) the amounts derived from savings bonds and Tax notes sold in these months, should be sufficient to provide the Treasury with a comfortable working balance until funds become available as a result of a summer financing.

Period and offering	Amount to be obtained		
	From banking sources	From other investors	Total from all sources
April - Continuously (weekly)			
Regular bill program	.8		.8
April 5-7			
Bank offering			
7/8 percent certificates...	2.1		2.1
April 5-30			
Nonbank drive			
Tax notes*.................		2.2	2.2
7/8 percent certificates...		2.2	2.2
2 percent bonds...........		1.3	1.3
2-1/2 percent bonds........		2.8	2.8
E bonds*.................		1.5	1.5
Subtotal - nonbank drive			10.0
April 26-28			
Bank offering			
2 percent bonds............	2.1	—	2.1
Grand total - April program	5.0	10.0	15.0

* Amount shown includes the entire volume of sales during the month.

The financing program set forth above has been designed with the intention that it should accomplish the following:

(1) Raise $15 billions of new money, of which only $5 billions, or one-third, would be obtained from banking sources.

(2) Confine Treasury borrowing from nonbanking investors who are beyond the E bond limit to periods of the periodic drive (except for Tax notes). This will permit a concentration of the approach and will enable you to obtain an economy in effort.

(3) Step up the borrowing level from individuals (including partnerships and personal trust accounts) from the $1.6 billions level in the December drive to a proposed level of $3.2 billions in the April drive. This latter amount, when added to savings bonds and Tax notes sold to individuals in January and February, will succeed in acquiring for investment in Government securities about two-thirds of the personal savings during the first four months of the calendar year, as against 47 percent of similar savings during the six months ended December 31, 1942.

(4) Emphasize again that the E bond is the "poor man's" bond, and that the Treasury is not promoting the sale of any other investment to him (except Tax notes) until he has acquired his E bond limit.

(5) Introduce the first of a series of special E bond drives synchronized with Victory Fund campaigns which would attempt to lift the level of E bond sales substantially by door-to-door campaigns aimed at obtaining the investment of recently accumulated funds in E bonds. It is contemplated that these campaigns would be conducted by the War Savings Staff; would be superimposed on payroll savings and other E bond operations

now being conducted; and would involve minute-man speeches, rallys, and as an extensive series of canvasses as could be arranged.

(6) Amalgamate the efforts of the Victory Fund and War Savings organizations by channelizing their sales efforts in the April drive as follows:

<u>Victory Fund Committees</u>: All investors, both corporate and individual, with incomes of $15,000 or more or with known bank accounts of $7,500 or more. There are probably 400,000 persons and corporations in these categories. Their names would be placed on lists prepared by the local Victory Fund organizations as suggested some time ago by the Grant Committee.

<u>War Savings Staff</u>: All investors with incomes under $15,000, which means everybody else in the country.

It is contemplated in connection with the channelizing of sales efforts that the entire basket be made available to both sales organizations.

(7) Introduce the idea that in these special E bond drives the Treasury and the Federal Reserve will look with favor upon bankers' activities tending to encourage individuals to withdraw important portions of their bank accounts for E bond investment.

In order to carry out the aforementioned financing program, a basket of securities has been designed to appeal to those investors whose funds have been accumulating, and should be available for investment in Government securities. The basket, it might be pointed out, does not include a security such as F and G bonds, which, it is assumed, will have been discontinued prior to the drive. The securities suggested for the basket and their special characteristics designed to make them attractive to the owners of the funds desired by the Treasury are the following:

(1) A 7/8 percent certificate due April 1, 1944. It is proposed that this issue be offered to all investors on Monday, April 5, and be open to banks for three days. The amount to be raised from banks would be set at $2 billions with subscriptions subject to allotment. The issue would be dated April 10 to eliminate the necessity of calculating interest on early subscriptions. The issue would be attractive to nonbanking investors primarily for the investment of corporation funds accumulating in depreciation reserves which cannot be reinvested in new equipment, tax reserves and funds arising from accounts receivable repayments which cannot be invested in new accounts.

(2) A 2 percent bond of December 15, 1950-52. It is proposed that this be offered to nonbanking investors on April 5 and to banking investors April 26-28. On the basis of the present market, it would sell at a premium of 9/32 after the books were closed. This bond is offered in preference to a 1-3/4 percent issue so as to vary the menu from the last drive. It will appeal to individuals and corporations desiring a return higher than that obtainable from a certificate and will be acquired by them probably as a secondary cash reserve. It will also be attractive to those investors who do not want a bond as long as a 2-1/2 percent issue.

(3) A new 2-1/2 percent "tap" bond, perhaps a 1960-70 or a 1965-75. It is proposed that this issue be restricted as heretofore and not be eligible for commercial bank ownership until 1953. The bond would be available in coupon as well as registered form. It is further proposed that the bond be made additionally attractive to individuals by the

insertion of a new provision which would allow redemption at par in the case of the death of an owner who had held the bond for six months prior to his death. This repayment at death provision should be worth something marketwise, for it would impart a relative stability to the price of the issue on the down side. It will be discussed further in the second section of this memorandum.

(4) E bonds. It is proposed that the E bonds offered during the campaign be changed from the present series only to the extent necessary to allow them to be acquired by all investors other than commercial banks, instead of merely individuals as at present. It is suggested that the prospective availability of E bonds to such investors be announced on the occasion of the announcement of the discontinuance of the F and G bonds.

(5) Tax notes. It is proposed that these securities be offered as heretofore, unless pay-as-you-go tax legislation is enacted prior to the start of the drive. In that event, it is suggested that announcement be made that the A series of Tax notes will be discontinued.

The following table summarizes the results which might be obtained in the April drive based upon the funds available to different classes of investors and the assumptions with respect to the proportion of each class of such funds which might be obtained for investment in Federal securities, as set out in the memorandum on "Sources of Funds for Federal Borrowing, Calendar Year 1943". It should be emphasized that these funds will not be automatically invested, however, and can be obtained only by a major sales effort.

Distribution of Securities During April Drive 1/
By Classes of Nonbanking Investors

(In billions of dollars)

Issue	Individuals	Insurance companies and mutual savings banks	Other corporations	Federal, State and local Government agencies	Total
Tax notes...	.3		2.0		2.3
7/8's.......	.2	.1	1.8		2.1
2's.........	.5	.3	.4		1.2
2-1/2's.....	.7	1.6	.2	.4	2.9
E bonds.....	1.5	—	—	—	1.5
Total.....	3.2	2.0	4.4	.4	10.0

1/ Data in this table are in agreement with data in the memorandum entitled "Sources of Funds for Federal Borrowing, Calendar Year 1943".

II. Technical and Policy Matters Which Will Require Some Attention

There are a number of important technical and policy matters which will require some attention during your consideration of the April financing. They are discussed briefly in the following paragraphs:

(1) F and G bonds. It is assumed in this memorandum that F and G bonds will have been discontinued before April 1. This discontinuance, if it is to take place, should be made effective a full month prior to the opening of the campaign. Our comments with respect to the continuation of these securities have already been given you.*

(2) E bond ownership. It is proposed that the E bond be opened to all investors other than commercial banks as of April 1, 1943. The limitation on the amount purchased would not be changed, however, from the present $3,750 issue price. This proposal is in line with the objective of making the E bond the "poor man's" security, and of selling only E bonds to investors of this class until the limit of purchases has been reached. Many clubs, associations, unions, church organizations, women's groups, political organizations, benefit societies, and fraternal, foreign, and racial groups, as well as many corporations which are the personal businesses of small merchants, salesmen, and vendors have funds which can well be placed in small denomination E bonds. Many of the social and political groups are actively promoting E bonds, and their efforts are likely to be enlisted in the April drive. The availability of E bonds for purchase by their own organizations may do much to dispel confusion and to gain enthusiasm among salesmen taken from these groups.

(3) E bond delivery. The amount set forth as the E bond goal in April -- $1.5 billions -- is about twice the amount of bonds that might normally be expected to be sold during that month. This amount will involve the issuance of not less than double the number of pieces that might otherwise have been expected, and the Treasury must, accordingly, be prepared for an issuance of between 40 million and 45 million separate bonds in the 25 days of the drive or thereabouts. This is no small order

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* In our memorandum of January 15, 1943.

and it will be made no easier by the fact that door-to-door campaigns depend for their success on rapid delivery of bonds -- certainly delivery no later than 48 hours after the application has been made. It is likely that the operation will have to be entirely decentralized, and in large cities may have to be carried down as far as to the local neighborhood. This extension of the issuing operation, it is obvious, may involve some liberalization in the procedures now being followed.

(4) Denomination of marketable issues. The philosophy of first selling an investor all the E bonds he can acquire, and then selling him marketable issues after he has acquired the E bond limit would be implemented mechanically, it would seem, if the minimum denomination of $500 for marketable securities offered during the drive is continued. The salesmen will not be tempted to set the E bond off against marketable issues if the latter do not appeal to small purchasers because of their $500 minimum denomination.

(5) Interest accrual on marketable securities. There was some complaint during the December drive about the complications arising from the computation of interest accruals from the day the security was dated to the day that payment was made. Each of the three issues carried a different interest rate, and there was a new amount of accrual for each issue each day. It is suggested that two improvements in procedure be made: (a) Date the marketable issues April 10 instead of the date they are first offered. (b) Change the amount of interest accruals only once a week using an average figure for the week. By means of the first change, interest calculations on all subscriptions tendered between April 5 and April 10 will thereby be eliminated. By means of the second change, there will be many less figures to be handled

by the salesman. These two changes may slow up the reporting of subscriptions by large investors, to whom a days interest may be a consideration. They are important enough, however, it would seem to make their adoption worth while for the Treasury.

(6) Dealers' and brokers' subscriptions. During the December drive dealers and brokers subscribed to $881 millions of the three marketable issues, of which $115 millions went into the long 2-1/2's and the balance of $766 millions went into certificates and 1-3/4 percent bonds. The latter securities were probably redistributed principally to commercial banks. There are three ways in which subscriptions of dealers and brokers might be handled during the April drive: (1) They might be included with those of commercial banks and subjected to the same percentage allotment; (2) they might be eliminated altogether; and (3) they might be accepted in liberal amount, as in the December drive. The first two methods would tend to confine the $10 billions quota rigidly to nonbanking investors, while the third method would provide a "kitty" in this quota to the extent that securities subscribed for by dealers were subsequently sold to banks.

(7) Optional repayment at par at death provision in the 2-1/2 percent bond. The optional repayment at par at death provision is proposed to insure small investors as well as large investors in the 2-1/2 percent bond against a price depreciation carried on beyond their lifetime. This provision is the same as is now carried by Series G savings bonds, which it is proposed to eliminate. It would have a much greater attractiveness than the provision in the December 2-1/2's which allows those bonds to be tendered at par for payment of estate taxes. The exemption for the Federal estate tax is $60,000, and the tax is not an important item until an estate is substantially above this amount. If the sights on the volume of these securities to be placed with individuals are to be raised, it would be helpful to sweeten the issue wherever possible.

The proposed repayment at par at death provision would be attractive to investors because it would have the long-run effect of imparting a relative stability to the price of the issue on the down side. Thus, if interest rates rose and the proposed issue dropped below par, elderly persons would acquire portions of it as rapidly as they were able in order to permit their estates to realize the assured capital gain on the date the obligation was tendered to the Treasury for repayment. Operations of this nature would serve to retard the decline in price of the proposed issue relative to declines in the prices of other Treasury issues in the market. This relative stability on the down side and not the actual matter of receiving par for the issue would, it might be noted, be the factor that would make the issue attractive to all investors in the market.

The suggestion for repayment at par at death is limited to the 2-1/2 percent bonds, and it is not proposed to apply it to the 2 percent issue.

(8) Bill money. In suggesting that a $15 billions financing in April will carry the Treasury until July, it has been assumed that the current practice of increasing bill issues over redemptions by $200 millions each week will be continued. This will cause the volume of bills issued to rise to $800 millions weekly starting on March 17; to $900 millions weekly starting on April 21; and to $1 billion weekly starting on June 16.

(9) Tax notes. The offering of the A series of Tax notes during the drive is not entirely in accordance with the philosophy of first selling E bonds to the average man. Series A Tax notes have never filled a very important economic need because most small taxpayers cannot or will not save for taxes, and of those

that do, many do not find Tax notes particularly convenient to them. As has been indicated earlier, the passage of pay-as-you-go legislation will offer a convenient time for discontinuing the A Tax notes without irritating those people who have been buying them. The A series has been left in the basket therefore, but the volume of its sales is not expected to be very large.