

March 8, 1943

Dear Dan:

The Federal Open Market Committee at its meeting on March 2 took favorable action on two recommendations that have a bearing on Treasury financing. These recommendations are (1) that the Treasury allot in full at a rate of  $\frac{3}{8}$  of 1 per cent all tenders for Treasury bills for \$100,000 or less, continuing to allot larger tenders as at present to the highest bidders, and (2) that the Federal Reserve System replace directly with the Treasury its holdings of maturing issues of Treasury bills and certificates of indebtedness. As Chairman of the Federal Open Market Committee I am submitting the recommendations to you. There is also attached to this letter a memorandum which gives my interpretation of the reasons for the recommendations. I should appreciate your careful consideration of these matters.

Sincerely yours,

M. S. Eccles, Chairman,  
Federal Open Market Committee.

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

Attachment.

March 8, 1943

FEDERAL OPEN MARKET COMMITTEE RECOMMENDATIONS TO THE TREASURY

The Federal Open Market Committee recommends that the Treasury allot in full at a rate of  $\frac{3}{8}$  of 1 per cent all tenders for Treasury bills for \$100,000 or less. Larger tenders would continue to be allotted as at present to the highest bidders. It has been the view of the Federal Open Market Committee for some time that encouragement should be given to the sale of Treasury bills to banks outside of New York City and Chicago for the purpose of inducing these outside banks to utilize their excess reserves. At the present time there is evidence that in New York City and Chicago the bill market is at or near the saturation point. In the past four weeks holdings of bills at banks in these cities have declined by 400 million dollars. The Federal Reserve Banks in these four weeks have taken 600 million dollars of additional bills, an amount equal to the increase in the amount outstanding. In these circumstances additional efforts should be made to distribute bills among the outside banks. The above proposal would be of great assistance in accomplishing that objective.

The Federal Open Market Committee also recommends that the Federal Reserve System replace directly with the Treasury its holdings of maturing issues of Treasury bills and certificates of indebtedness. Under present conditions the System's holdings of bills are increasing rapidly, and it is generally necessary to go into the market to replace holdings of maturing bills. Further increases in the System's holdings are in prospect because of the continued increase in the amount of money in circulation and in required reserves as deposits increase. The direct replacement of maturities would in no way change the amount that the System will add to its portfolio.

Direct replacement would avoid churning the market for bills each week. It would avoid the illusion that bills are being tested in the market before they are sold to the Federal, an illusion based on the fact that a part of the bills each week are allotted in response to so-called underwriting tenders; the real underwriting is done by the System, and such indirection has no place at the present time. There is no question as to the legality of direct replacement. There is a precedent for it since on two recent occasions the System placed subscriptions for certificates for the amount of its holdings of the maturing issues. Since replacement of maturing issues direct with the Treasury adds nothing to Federal Reserve holdings of Government obligations, it is not inflationary, not even in the sense that special certificates to avoid overdrafts are inflationary inasmuch as they release funds to the market.

COPY

THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

March 9, 1943.

Dear Marriner:

I have your letter of March 8, 1943 advising me of the action taken by the Federal Open Market Committee on two recommendations with respect to the allotment of Treasury bills up to \$100,000 or less, and permitting the Federal Reserve System to replace directly with the Treasury its holdings of maturing bills and certificates.

We shall be glad to give every consideration to these two recommendations.

Sincerely yours,

(Signed) Dan

Honorable Marriner S. Eccles  
Chairman, Board of Governors  
Federal Reserve System  
Washington, D. C.