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September 13, 1944

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

Dear Dan:

The Executive Committee of the Federal Open Market Committee has considered further the question of increasing the weekly offering of Treasury bills and presents its recommendations in the enclosed memorandum. Representatives of the Executive Committee would be glad to meet with you and discuss the matter further if you wish. If you disagree with the memorandum and want to issue additional bills, we would like to have an opportunity to discuss the matter further before you make a definite decision.

Sincerely yours,

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

Enclosure

STRICTLY CONFIDENTIAL September 13, 1944

MEMORANDUM FROM THE EXECUTIVE COMMITTEE OF THE FEDERAL OPEN MARKET COMMITTEE TO THE SECRETARY OF THE TREASURY

The Executive Committee of the Federal Open Market Committee has considered further the question of increasing the weekly offering of Treasury bills, which was the subject of the memorandum of July 31. The Committee recommends that the Treasury make no increase in the weekly offering before the end of the Sixth War Loan, unless the timing of the Sixth War Loan makes necessary the building up of the Treasury balance prior to the date of payment for securities offered in the drive. In making this recommendation, the Committee has taken into account the following considerations:

1. Under present conditions, any increased amount of outstanding bills would need to be purchased by the Federal Reserve. In the opinion of the Committee, there should be no increase to raise funds when the market for notes and bonds is strong, but increases should be postponed until bills are needed to supply reserves and to maintain the pattern of rates. Otherwise, part of the reserves created by Federal Reserve purchases of bills would go to banks that already had sufficient reserves, with the result that these banks would be enabled to hold the large amount of securities that they purchased during the Fifth War Loan and would be encouraged to expand credit further by purchasing additional amounts. The existing difficulty in maintaining the pattern of rates would thereby be increased, and the continued strength in the note and bond market might encourage banks to purchase an even larger amount of securities during the Sixth War Loan than they purchased during the Fifth War Loan.

2. Banks hold sufficient securities to meet their needs for reserves without strain on the pattern of rates. Between September 6 and November 15, the Federal Reserve will need to supply 2.4 billion dollars of reserves, comprising 1.1 billion to meet increased reserve requirements, 1.1 billion to meet an increase in money in circulation, and about 200 million to meet a gold outflow. Weekly reporting member banks on September 6 still held 629 million dollars more of bills than they held on June 7, just before the beginning of the Fifth War Loan. Between June 7 and the peak in their holdings, reporting member banks increased their holdings of certificates by 2.3 billion dollars, their holdings of notes by about 400 million, and their holdings of bonds by 1.3 billion, a total of 4.0 billion. Since the peak, they have reduced their holdings of certificates by 134 million dollars, their holdings of notes by 97 million, and their holdings of bonds by 12 million, a total of 243 million. They still hold, therefore, 3.8 billion dollars more of certificates, notes, and bonds than they held before the beginning of the Fifth War Loan. It is apparent, therefore, that banks can readily meet their reserve needs by selling only part of these acquisitions. It is the opinion of the Committee that they should be required to do so rather than supplied with reserves by an increase in

the bill offering, which as pointed out above would increase the reserves of banks that did not need them. Such a policy would reduce the demand for notes and bonds and permit them to recede in price from the advanced levels reached following the Fifth War Loan. This development is desirable if excessive speculation is to be discouraged during the Sixth War Loan. Since bank earnings are now at very high levels, there is no need from this point of view of maintaining their present holdings.

3. In maintaining the pattern of rates, Federal Reserve holdings of notes and bonds have declined by about 300 million dollars since early in July. Unless notes and bonds are restored to the Federal Reserve to replace the notes and bonds that have recently been sold, the Federal Reserve will find it increasingly difficult, if not impossible, to maintain the present pattern of rates.