

April 7, 1942.

To - Mr. Bell
From - Mr. Eccles

As you suggested, I am sending you herewith the letter addressed to the Secretary about which I spoke to you on the telephone this afternoon in connection with the suggestion that the limit on Series F and G bonds should be raised from \$50,000 to \$100,000.

Enclosure

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April 7, 1942

Dear Henry:

In reply to a request from Mr. Nell, I am submitting my views on the suggestion that the limit on Series F and G bonds should be raised from \$50,000 to \$100,000. I feel certain that the members of the Board as well as the Presidents of the Reserve Banks would agree with my position, since my views are in line with one aspect of the communication sent to you on January 28, 1942. A copy of this communication is enclosed.

I think that the question of increasing the limit on F and G bonds should be deferred pending decision about the long-term non-marketable issue which the Federal Reserve has proposed. The reasons for this position may be summarized as follows:

(1) The 2 1/2 per cent rate carried by 12-year F and G bonds is a subsidy rate designed primarily for small savers. Fifty thousand dollars is certainly not too low a limit for this type of saver.

(2) The issue proposed by the Federal Reserve would extend the maturity to eighteen years and remove the subsidy feature. It could, therefore, have a much higher limit. In fact, the million dollar limit proposed could later be raised or removed. The proposed issue would, therefore, go much farther in meeting the investors' demand than would an increase to \$100,000 for F and G bonds.

(3) The 18-year 2 1/2 per cent non-market issue we propose would compete much less with long-term open-market issues which you may wish to offer from time to time. Twelve year 2 1/2 per cent bonds of the F and G type, if the limit be raised to \$100,000, would definitely compete with open-market issues. The 18-year issue we propose, on the other hand, would be at 2 1/2 per cent much closer to the market and would not compete on a preferential basis with long-term open-market issues.

As you know, I am greatly in favor of resorting increasingly to non-market issues. I believe, however, for the reasons stated, that the purpose would be accomplished much more satisfac-

Honorable Henry Morgenthau, Jr.

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torily by offering a new 18-year non-marketable issue, with the other features proposed in our memorandum, than by raising the limit on F and G bonds.

Sincerely yours,

M. S. Eccles,
Chairman

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

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