

Personal

May 12, 1943.

Dear Mr. Secretary:

In my letter of May 3rd, I sent you my personal views on some of the general aspects of the organization which you are developing for the sale of government securities during the war. Now, you have asked for more specific suggestions and I have jotted down my tentative ideas. Before doing so, however, I thought it helpful to take a quick look at the figures already available showing the results of the Second War Loan.

The most striking figure is the total sale of \$12½ billion to non-bank investors. That is \$2½ billion above the "perfect score" estimated in the memorandum on the "Sources of Funds for Federal Borrowing in 1943." A rough comparison of estimates and results is as follows:

	<u>Estimates</u>	<u>Results</u>
Individuals, partnerships and personal trust accounts	\$ 3.2 billion	\$ 3.3 billion
Insurance Companies	1.4	2.4
Savings Banks	.6	1.2
Corporations and Associations,		
Other	4.7	5.
Other	.3	.6
All non-bank investors	<u><u>\$10.0 billion</u></u>	<u><u>\$12.5 billion</u></u>

Particularly important in the makeup of these results has been the late spurt in sales of Series E bonds to a total of about \$1½ billion. All of these figures have to be looked at very carefully, however, and checked as later data becomes available, so that we shall not be misled by appearances. The Series E figures have some element of padding in them, in that sales for the first week of May, as well as for the full month of April are included; and we must also watch the June-July redemptions to see whether there is an abnormal return flow of sales made under high pressure. The figures of total sales to individuals, partnerships, etc., include a certain amount of speculative buying - riding the pattern of rates it might be called - which eventually will swell bank holdings. The purchases of insurance companies and savings banks were over \$1½ billion above the estimates, largely because these institutions sold substantial amounts of older issues of government securities (and not all short-term by any means) to commercial banks prior to and during the April drive, thus increasing the amount of funds available to pay for subscriptions to the new issues. In addition, as the success of the drive became apparent and talk of postponement of the next loan until September or October was heard, some anticipatory purchases by insurance companies were arranged. Nor should we treat gross sales of Tax Notes, Series C, as net investment in government securities - that and a certain amount of speculative buying of other issues will deflate

somewhat the figures of sales to "other corporations and associations." All in all, as good as the results are, I think we shall find that too many securities are still going directly or indirectly to the commercial banks. Commercial bank holdings of government securities during the first four months of 1943 (including the \$2 billion of 2% bonds paid for on May 10th) probably increased as much as \$10 billion, and they are only "supposed" to increase \$12 billion during the whole year if we are to turn in a 100% performance according to the estimates.

This leads me to repeat what I have said before - that we cannot assume we have licked this job. We need to tighten up our organization and improve our performance. I start with the recommendation that the two sales organizations which were loosely welded together for the April drive be made into one organization - the War Finance Committee - and that the War Savings Staff and the Victory Fund Committees now be eliminated and their names dropped. The April drive served to introduce the name War Finance Committee, while retaining in subordinate position the two older names War Savings Staff and Victory Fund Committee. The transition to one organization and one name should now be completed.

At the head of this single organization, of course, should be the National Director of Sales, responsible to you and to the Under Secretary and, with your full backing, in charge of all personnel and the direction of all work at national headquarters. There should be no question of his complete authority, and no autonomous individual or groups running particular parts of the show, under his merely nominal command.

The single field organization I would set up by Federal Reserve Districts with the Presidents of the Federal Reserve Banks as Chairmen of the War Finance Committees of their respective districts and with the best man obtainable as Director of Sales for the district. (The Chairman should not be restricted in his choice of district Director of Sales.) Some representation of previously existing War Savings Staff and Victory Fund Committees could be brought into the district War Finance Committees as a tactical maneuver, but no attempt should be made to preserve the individuality of the two working organizations. The Chairman of the War Finance Committee and his Sales Director should have complete authority to set up and develop their sales organization without being required to use this man or that method because of pre-existing situations or connections.

Communication between national headquarters at Washington and the district headquarters should be entirely through the district Chairman and his district Sales Director - there should be no separate groups at national headquarters dealing directly with separate groups in the field; that way lies disorganization.

The district organization I envisage would have two main divisions, one to promote payroll savings and one to work on periodic drives. There would necessarily be some coordination of the work of these two divisions and they would be serviced by the same administrative and publicity staffs, speakers bureaus, etc., but their work would largely be separated. Payroll savings is the backbone of a continuing thrift and investment campaign and it is the only important thing (stamps are a minor item) which should be carried on continuously. Special events of all kinds should be reserved for the periodic drives. Neither the sales organization, nor the public can be whipped up to drive pitch continuously and their enthusiasm and receptiveness should not be dulled by constant minor drives.

In order to aid the selling organization in achieving its main objective of the largest possible amount of investment (not speculative) sales to non-bank investors

and to focus public attention on this aspect of the program, I think I would:

1. Direct the periodic drives solely at non-bank investors and aim at having them 5 or 6 months apart. Intervening financing could then be done with the bank. The amount of bank buying fundamentally will be controlled by their reserve position, and we have now demonstrated that their reserve position may be brought under control without interfering with the success of Treasury financing.
2. Reduce the line of goods we sell during drives probably to the Series E bond, the Series C Tax Note, a long note or an intermediate bond, and the long 2½% bond (which should be made available in a \$100 denomination). The Series E bond and the Series C Tax Note would be available continuously, of course, but presumably the sales would be stepped up during drives.
3. Provide a partial payment plan for market issues so that small investors can anticipate future income over a reasonable period of time and so that institutional investors can adjust their purchases to the regular accumulation of their funds between drives.

Finally, I believe that in the future we should set high goals instead of low goals for our campaigns. Over-shooting the mark by \$5 billion is exhilarating, but it could dangerously mislead the public and might end up by confusing us. After all, we knew we must have at least \$15 or \$16 billion during the April drive if its sales were to carry us at least until August. It would be better to announce such a goal, and, if we fail to make it, the country and the selling organization will know they have to do a better job. Such a failure would not interfere with the war effort and should stimulate Treasury financing of the anti-inflation kind. If "honest" national goals are set, however, it will be more than ever necessary to remember that district quotas are statistical guesses and that sales in relation to quotas are only a very approximate measure of the effectiveness of the several district sales organizations.

I have not discussed this letter, nor my earlier letter of May 3rd, with anyone. They are therefore purely personal expressions of views.

Yours sincerely,

ALLAN SPROUE

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

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(Letter sent via airmail, special delivery, and envelope marked Personal and Confidential)