Allen Sproul 11/9/43

WAR LOAN DRIVES

1. Period between Drives - From the standpoint of the volunteer workers of the War Finance Committee and of public response, it would seem desirable to have the periodic war loan drives spread as widely apart as possible - two drives each year, as in 1943, would fit this prescription.

   From the standpoint of institutional investors, and others with funds accumulating regularly, more frequent opportunities for investment are desired. This also is of some importance to the Treasury, which otherwise must borrow funds and pay interest in advance of need. Finally, it would reduce the amplitude of swings in War Loan deposit accounts.

   A partial solution of this problem would be to institute a real partial payment program which would carry through the full period between drives.

2. Sales to Individuals - Further emphasis should be placed on sales to individuals, following up the steps already taken. Whether this should be accomplished through a change in quota methods (separating the quota for individuals from the quota for other non-bank investors, and carrying only the quotas for individuals below the national level), or whether there should be an actual time separation within a drive, of sales to individuals and to others, is a matter for the sales organization to determine.

3. Quotas and Allocations - In any case, in order to avoid unnecessary movements of funds around the country and in order to avoid the use of corporate and other subscriptions (perhaps temporary in character), to mask failures to achieve quotas for sales to individuals, there should be no quotas below the national level except for sales to individuals.

   A uniform system of allocation of subscriptions should be prescribed by the Treasury, after consultation with the Federal Reserve Banks, for both inter-district and intra-district allocations of subscriptions.

4. Basket of Securities - The original conception of the basket of securities was a list which would contain something to meet the requirements of every type of investor. The exclusion of commercial banks from periodic war loan drives, and the possible time separation within a drive of sales to individuals and sales to other non-bank investors, suggests changes in the "basket."

   The elimination of certificates of indebtedness is again recommended. This would have several advantages. It would place non-bank holdings of government securities on a longer term basis. It would reduce the playing of the pattern of rates. It would reduce the incentive to meet quotas by means of temporary investments, which are ultimately passed on to the banking system. It would increase sales of savings notes, which are the fairest type of issue as long as a pattern of rates like the present one prevails, since the Treasury pays and the investor receives a rate of return based solely on the length of time that the Treasury has used the funds. It would eliminate the large refunding problem of as much as $5 billion on a single issue that now arises after only a year. By reducing the number of kinds of issues, it would simplify the Treasury's financing program.

Consideration of a 2 1/4% bond ineligible for commercial bank ownership for a period of years is recommended. Since March 1941, when taxable bonds were first issued, the maturity area from 1954 to 1964 has been largely neglected. Substantial increases in issues of 2% bonds, maturing in a relatively congested area, and of 2 1/2% non-bank bonds, have made up the whole of the longer term market offerings. A 2 1/4% bond would fill a gap in many investment portfolios and would also help to space the Treasury's refundings in the decade 1950-60. Finally, such a bond, ineligible for commercial bank purchase for a period of years, would help further to discourage speculative purchases and indirect bank purchases during a drive.

A note with a maturity of from 3 to 5 years, and an appropriate coupon, might also be included in the drive to meet the requirements of relatively short term investors who still demand a fully marketable security.

The basket should continue to include:

(a) A 2 1/2% bond of restricted marketability of the same type and approximate maturity as in previous drives, with a $100 denomination included.

(b) Series E war bonds. Because of the complications which they may introduce into a post-war anti-inflation program, attention should be given to possible changes in the redemption feature of these bonds so that redemptions may be definitely staggered over a period of time.

(c) Series F and G war bonds could be excluded or they could continue to be included. It is a matter of relatively little importance.

(d) Series C savings notes.

4. Loans for Purchasing or Carrying Securities - The Treasury should make clear and unequivocal its opposition to bank loans for the purpose of facilitating the speculative purchasing or carrying of securities. This should be done both in a separate statement before the drive, devoted to this topic only, and in the offering circular.

When possible, policing of subscriptions to eliminate flagrantly speculative subscriptions should also be undertaken.

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A.S.