

April 1, 1946.

TO - Chairman Eccles
FROM - Mr. Thurston

OBJECTIONS TO HAVING FEDERAL RESERVE BANKS ACT AS FISCAL AGENTS FOR THE OFFERING AND DISTRIBUTION OF FEDERAL FARM LOAN BONDS.

For the Federal Reserve Banks to act as fiscal agents in offering and distributing other than direct obligations of and obligations which are guaranteed as to principal and interest by the United States would mark a radical departure from long established precedent. No compelling reasons have yet been advanced for departing from this precedent. In the final analysis, the purpose appears merely to be to accomplish some saving by avoiding payment of commissions to the private investment bankers who have always handled these issues. This is an established and recognized machinery which is necessary to the functioning of the capital markets. It has not been suggested that this mechanism has failed or has functioned so badly as to necessitate transferring these operations to the Reserve Banks and thus have public instrumentalities usurp another private function. If the commissions charged are excessive, they can be reduced.

For the Reserve Banks to assume the function would inevitably make for confusion. It would imply a sponsorship for offerings which, while they are issued on behalf of a governmental agency, are nevertheless in an entirely different category from direct or guaranteed obligations of the United States. If this step is to be taken on behalf of the Federal Farm Loan Bonds, then it would logically follow that the Reserve Banks should also perform a like service for the International Bank, for the Home Loan Bank System, and for the United States Housing Authority. There would be no line of demarcation left then between the Government's direct or guaranteed obligations, which are eligible for open market operations, and the offerings of other agencies which are not eligible. The public would be likely to assume that the indirect and unguaranteed offerings were also entitled to market support if necessary.

This proposal should have thorough and searching examination before we embark upon such a changed policy. There is no reason why we should work against an artificial deadline at this time. Forthcoming issues can be put out in the usual and normal way as they always have been in the past, and this question can then be more carefully explored.

ET:b