

March 23, 1940

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NEW REGULATION ON SAVINGS BONDS

The Secretary announced yesterday that after April 1 Savings bonds will be sold only to individuals; either a single individual, two individuals as co-owners, or an individual with another individual named as beneficiary. While this is a step in the direction of reducing the volume of sales to large holders, it does not go far enough. Below are some preliminary comments upon the effect of the action.

1. The reduction in sales will occur mainly in January, February, and March of 1941 because the ineligible purchasers will have largely filled their requirements for 1940 by the end of this month.

2. The amount of the reduction in net sales for the year from April 1, 1940 to March 30, 1941 will probably be not more than \$350,000,-000 out of the prospective total of perhaps \$1,200,000,000 which would have been realized had there been no change in the regulation.

This is 25% of gross sales

3. We may expect a rush from the future ineligible purchasers to get under the April 1 dead line, so that the increased sales for the rest of this month will probably be sufficient to offset any loss during the remaining three months of the current fiscal year. Consequently, our estimate of the Treasury's cash balance as of the end of June 1940 should not be materially affected by the new regulation.

4. Other reasons for not expecting so large a reduction in the net sales of Savings bonds as might be indicated by the new regulation are that the ineligible groups will be somewhat less willing to redeem their present holdings if they can no longer purchase new bonds. There may also be some shift of new purchases to individuals which would otherwise go to partnerships, trustees, or guardians.

5. Now that this regulation has been adopted, if sales continue in relatively large volume during the next few months, the question of reducing the maximum amount which individuals are permitted to purchase might well be raised again.