

TO Board Members (individually)FROM Chairman Eccles

REMARKS:

11/4/42

For your information, I am giving you the attached letter received from Allan Sproul as a result of a telephone conversation I had with him last Friday.

M.S.E.

(ABOVE SENT TO MESSRS. PISER AND THURSTON 11/5/42; ALSO MR. MORRILL AND DR. GOLDENWEISER)

CHAIRMAN'S OFFICE

C O P Y

FEDERAL RESERVE BANK
OF NEW YORK

November 2, 1942.

Honorable Marriner S. Eccles, Chairman,
Federal Open Market Committee,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Chairman Eccles:

As I told you on the telephone Friday, I have to make a hurried trip to California. I know it is a bad time to be away, but any time is a bad time these days, and a combination of personal family matters leaves me no alternative but to go.

Following your example of last August, I want to leave some record of my views, for the Open Market Committee and the Treasury, on the problems immediately ahead, for whatever they may be worth in carrying forward at a time when time is so important.

First, I might tell you of the memorandum of views which the principal member banks of New York City asked me to send to the Secretary of the Treasury last week. You may recall that a group, made up of the heads of about 17 of our largest member banks, met last April to give expression to their desire to assist wherever they could be helpful in meeting the problems of Government financing. Subsequently, the group sent the Secretary a report of a subcommittee on a financing program, and later he had lunch with the group, here at the bank. I acted as liaison man in all of these exchanges.

The matter about which the banks are now particularly concerned is the increasing need for marketing increased amounts of Government securities outside the banks and of spreading purchases by the banks throughout the country. They pointed it up by saying that if the banks double their holdings of Government securities between July 1, 1942, and June 30, 1943, it would mean the purchase by them of \$24 billion of such securities, and that the aggregate amount to be sold outside the banks, including sales of War Savings Bonds, would then be \$36 billion.

That, they said, cannot possibly be accomplished unless there is a more intensified organization of the selling effort and some modification of marketing technique. The specific steps they suggested were:

1. Appointment by the Secretary of the Treasury of a person especially qualified by reputation, sales ability, and energy to unify the command of the whole selling campaign, including War Savings Bonds, other non-market issues, and market issues. Such a person should devote his entire time to the direction of the sales program and be directly responsible to the Secretary and the Under Secretary of the Treasury.
2. An expansion and coordination of the present sales organizations so that they can effectively reach every possible buyer in every city, town and village of the country.

3. A further national program of education to make clear to the banks, the large investors and the small investors their part in the war financing program.
4. A lengthening of the period during which subscription books for Treasury offerings are open, except in the case of such securities as Treasury bills, Treasury certificates, or similar offerings the amount and character of which make this unnecessary. It is our view that other offerings should be made less frequently and for larger amounts, the terms to be announced sufficiently in advance of the offering to permit a national sales campaign to be organized, and the selling period to be adequate for the completion of a national drive outside and inside the banking system.
5. The further development of a security designed for sale to non-bank investors in unlimited amounts. For example, a long-term 2 1/2 per cent bond, available to others than banks in unlimited amounts, with provision for its purchase on an installment basis, direct from the Treasury or with the aid of installment loans to the purchasers by financial institutions.

I share these views entirely (as does Mr. Perry E. Hall, Executive Manager of our Victory Fund Committee) and it seems to me that they are in full accord with the views which the System has held and which it has expressed to the Treasury at every opportunity over a considerable period.

Supplementary to but antedating this development is the matter of the Series F and G War Savings Bond campaign of the War Savings Staff. As I have told you, I received on October 20 a copy of a plan of campaign to be carried out in New York State under the title "All Out War Bond Campaign." I read it that night and, as soon as I could get to the telephone the next morning, I called Mr. Bayard Pope, Chairman of the Executive Committee of the New York War Savings Staff, who had given me the copy of the plan. I told him that the proposed plan would try to preempt the field of active public sale of Government securities in New York State for a period of three or four months, and that I thought to embark on such a campaign to raise a few hundred million dollars would be unthinkable in the light of the big financing job we have to do. I also told him that I thought the Treasury would be foolish to waste its fire in this way, and it was inexplicable to me that it would sanction such a program without integrating it with the rest of the financing job which involves raising about \$5 billion a month from here on. Finally, I said I wanted him to hear what I had to say because I was going to say the same thing to the Treasury, as this thing is too serious for us to stand on ceremony or to have too much regard for personalities.

Subsequently (that morning) I telephoned Under Secretary Bell and told him about the "All Out War Bond Campaign" and repeated what I had said to Mr. Pope. I also told him that I was not talking merely as a member of the Victory Fund Committee or even of the Federal Reserve System, but as someone who was wholly interested in the successful financing of the war, and who thought that continuance of the present unintegrated sales program would be very serious. Mr. Bell said he intended to talk with the Secretary about this as soon as he returns to Washington.

This all ties in, of course, with any consideration of Treasury financing either during the next two months or for the duration. I am convinced of the necessity for some change-over to the periodic drive method of financing if we are going to attain our two objectives, large sales outside the banking system and equitable distribution of sales within the banking system. I do not think, however, that we have a sales organization which is set up, either at the top or at the bottom, in a way to warrant our embarking on an all out drive in November. There must be a unification of command, considerable readjustment at the Treasury, and a considerable amount of work in the field, if we are to get an organization in shape and to do the educational job which will be necessary to make the drive method effective.

My recommendation, therefore, would be to do the November-December financing in about the usual way, meanwhile laying all plans and taking all steps necessary so as to be ready for a drive in January. The Treasury estimates that it will have to borrow about \$10,600,000,000 in November and December. This could be raised as follows:

Bills - - - - -	\$1,200,000,000
Savings Bonds - - - - -	2,000,000,000
Tax Notes - - - - -	1,000,000,000
2 1/2% Tap Issue .v - - - - -	1,500,000,000
Certificates of Indebtedness - - - - -	2,000,000,000 to \$2,500,000,000
1 3/4% Bond - - - - -	2,250,000,000
Reduction in Treasury Balance - - - - -	500,000,000 to \$ 600,000,000

The only drive included in this program would be a very much intensified drive on Series E Savings Bonds, which I think would be the most effective sort of drive to combat excessive Christmas spending. Meanwhile, the Victory Fund Committees could put in special efforts on the 2 1/2% tap issue and on the Tax Savings Notes. As for the amount of bank financing which would be involved, I am sure it would not be a subject of criticism if it were made known that active steps were being taken to establish the kind of an organization which is required to do a big selling job outside the banks.

Mr. Rouse is working out a financing program, such as I have sketched above, for November and December. I do not think there is anything else which need lengthen this overlong letter. I expect to be back November 16, 1942.

Yours faithfully,

(Signed) Allan Sproul.

Allan Sproul, Vice Chairman,
Federal Open Market Committee.