

C O P Y

Wyoming  
11/6/42

Dear Marriner:

There is one matter which I did not touch on in my recent letter to you and which I intended to mention. It is the proposal further to debauch the Treasury bill and the bill market.

In the absence of more compelling arguments than I have yet heard, I would vote against this proposal. I would do this not as a matter of principle, because we have already risen above principle where bills are concerned, but because the whole operation is in a fair way to become ridiculous. We are already selling good dollar bills for ninety nine and nine-o-six cents. To mask this essentially simple transaction, we ask the buyer to do a little elementary arithmetic, and to make a bid, so that he will still think he is in a competitive market. But now it is proposed to do away with this, for those who are too lazy to bid. Hereafter the bargain counter dollar bills will be wrapped as gifts and delivered to the buyer's door. Hocus pocus carried to this extreme destroys illusions rather than supporting them.

Could we not work out something which would be less cumbersome and, at the same time, more effective than this adulterated bill procedure? How about an arrangement with all of our member banks whereby their excess reserves would be automatically transferred to the credit of the Treasury, which would pay three-eighths of one per cent for their use? When a bank needed additional reserve funds, and wished to reverse this operation, we would supply the funds, up to the amount of the original transfer to the Treasury, and become the Treasury's creditor for a like amount. (Just like buying bills.) Such a plan would bring about promptly the full utilization of already existing reserves, and help to dissipate the false fear that there is some minimum of excess reserves which is essential for the success of Treasury financing and the safety of the banks. Then the automatic adjustment of bank reserve positions could properly come into play. To obtain additional reserve funds, as needed, to pay for further investments in government securities, the banks would either sell some of their present holdings to us (open market operations) or, if their need appeared to be temporary, they would borrow from us.

Surely our lawyers, who were able to find that purchases of certificates of indebtedness and Treasury bills direct from the Treasury, are not direct purchases if you hold a similar maturing obligation, could find a way to do this without going to Congress for a law.

I hope you can read this. The going is pretty rough at the moment.

Yours faithfully,

Allan Sproul.