

March 25, 1942

Chairman Eccles

Burgess report.

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The report sent to you by Mr. Burgess under date of March 21, 1942, marks a great improvement over the previous report. Although it does not argue in favor of nonmarketable issues, it also does not argue against them, as was done in the previous report. The statements of principle seem to be along the right lines. The recommendations are not so specific as we would make, but if the report were more specific it might be in the wrong direction. I can see no objection to giving it wider circulation, even though we would not want to sponsor it ourselves.

The only important error results from a misunderstanding that Series A tax notes are sold only to individuals and Series B notes only to corporations. The recommendation is made in the report that the limit on Series A notes should be raised to \$10,000 or removed altogether. (pp. 9, 10). This would obviously be a mistake and should be deleted from the report.

The important statements of principle contained in the report are the following:

- (1) A country at war must tax to the maximum extent consistent with the maintenance of morale and incentive. (p. 1).
- (2) The Treasury should borrow as much as it can from the current income of the people which might otherwise be spent. The sale of defense bonds through payroll deductions does exactly this. (p. 4).
- (3) The use of idle money is not as anti-inflationary as the tapping of current income, but it is less positively inflationary than the purchase of securities by banks. (p. 4).
- (4) Unless new methods and efforts are introduced into the borrowing program, half the new money in fiscal year 1943 is likely to come from bank credit expansion. (p. 6).
- (5) The market should be supplied with enough bills and other short maturities to supply the needs of corporations and to furnish a means of facilitating adjustments of position among banks. (p. 12).
- (6) The capital position of banks should be protected by (a) keeping them supplied with reserves, (b) preventing a major decline in the market, (p. 18), (c) selling them maturities of from one to about ten years, (p. 19), and (d) keeping their dividends at a low level. (p. 23).
- (7) The war should be financed on a fairly steady level of interest rates. (p. 19).
- (8) Excess reserves should be allowed to decline to perhaps two billion dollars and maintained at that level. (p. 21).