Form F. R. 511

TO ______________________________

FROM ______________________________

REMARKS: 6/28/43

Memos used at Open Market Committee (full) on June 28, 1943.

CHAIRMAN'S OFFICE

CLASS OF SERVICE DESIRED	
DOMESTIC	CABLE
TELEGRAM	ORDINARY
DAY LETTER	URGENT RATE
SERIAL	DEFERRED
NIGHT TELEGRAM	NIGHT LETTER
SPECIAL SERVICE	SHIP RADIOGRAM

Patrons should check class of service desired; otherwise the message will be transmitted as a telegram or ordinary cablegram.

WESTERN UNION

1207-P

CHECK

ACCOUNTING INFORMATION

TIME FILED

A. N. WILLIAMS, PRESIDENT — NEWCOMB CARLTON, CHAIRMAN OF THE BOARD — J. C. WILLEVER, FIRST VICE-PRESIDENT

Send the following telegram, subject to the terms on back hereof, which are hereby agreed to
Pullman employes are required to furnish receipt for all paid telegrams

June 4 1943

To Daniel W Bell

Street and No. Undersecretary Treasury

Place Washington D.C.

Relative proposed treasury financing have following comments to make: Approve time proposed for third War loan drive. Strongly advise against reopening 2½ percent bonds. If bank & non bank financing are to be separated then market offerings should not be made to public between drives. Would greatly reduce amount securities sold during drives. Insurance Companies & other large non bank investors

WANT A REPLY?
"Answer by WESTERN UNION" or similar phrases may be included without charge.

SENDER'S PERMANENT ADDRESS:

PLAY SAFE. WIRE AHEAD FOR HOTEL OR TRANSPORTATION RESERVATIONS

PULLMAN EMPLOYE'S RECEIPT
for Western Union Telegram

Amount received $ ____ to pay for

Telegram destined ____

Filed at ____

Date ____ 19 ____

AGENT OR OPERATOR

Pullman employe will attach this coupon to trip report

PASSENGER'S RECEIPT
for Western Union Telegram

Amount received $ ____ to pay for

Telegram destined ____

Filed at ____

Date ____ 19 ____

PULLMAN CONDUCTOR OR PORTER — LINE NO.

Pullman employe acts only as agent of sender. No responsibility is assumed by the Pullman Company. This coupon to be given to the passenger

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To

Street and No.

Place

should accumulate funds for next drive. Require-
ments of insurance companies and others desiring
invest in anticipation income can be met next
drive by making 2½ percent bonds available on
four or five month installment basis. This would
also increase funds raised during drive. Banks
should supply funds when needed in addition
to those secured during drives and
on tap issues between drives. I very much

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favor limiting amount of Commerical bank subscriptions on basis capital + surplus or basis time as well as demand deposits. It would be unfair to exclude time deposits unless they are permited to be invested in 2 1/2 percent bonds. I favor offering to Commerical banks + dealers only note ~~or~~ 2 percent bond when treasury needs money. July nineteen ~~may be~~ when certificate is proposed

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To

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Place

may be good time for bank offering or it could be delayed until August depending on new funds raised on Certificates. At present would favor 2 percent bond for banks as this security in greatest demand. A small premium on bond offered at par would assure all banks taking their full quota. Plan to refund 3 1/2 percent bond in August seems advisable

Eccles

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C
O
P
Y

WESTERN UNION TELEGRAM

June 4, 1943.

Daniel W. Bell
Under Secretary Treasury
Washington, D. C.

Relative proposed treasury financing have following comments to make: Approve time proposed for third war loan drive. Strongly advise against reopening 2-1/2 percent bonds. If bank and nonbank financing are to be separated, then market offerings should not be made to public between drives. Would greatly reduce amount securities sold during drives. Insurance companies and other large nonbank investors should accumulate funds for next drive. Requirements of insurance companies and others desiring invest in anticipation income can be met next drive by making 2-1/2 percent bonds available on four or five-month installment basis. This would also increase funds raised during drive. Banks should supply funds when needed in addition to those secured during drives and on tap issues between drives. I very much favor limiting amount of commercial bank subscriptions on basis capital and surplus on basis time as well as demand deposits. It would be unfair to exclude time deposits unless they are permitted to be invested in 2-1/2 percent bonds. I favor offering to commercial banks and dealers only note or 2 percent bond when treasury needs money. July nineteen when certificate is proposed may be good time for bank offering, or it could be delayed until August depending on new funds raised on certificate. At present would favor 2 percent bond for banks as this security in greatest demand. A small premium on bond offered at par would assure all banks taking their full quota. Plan to refund 3-1/4 percent bond in August seems advisable.

Eccles

…OF SERVICE
…is a full-rate Telegram or Cable-gram unless its de-…rred character is in-…icated by a suitable symbol above or preceding the address.

WESTERN UNION

1220

A. N. WILLIAMS
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

SYMBOLS
DL=Day Letter
NT=Overnight Telegram
LC=Deferred Cable
NLT=Cable Night Letter
Ship Radiogram

The filing time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

MA347 271/270 GOVT=BD WASHINGTON DC 3 734P

MARRINER S ECCLES=

1943 JUN 3 PM 8 41

CARE CONDUCTOR CITY OF LOSANGELES STREAMLINER

LEAVING CHGO AT 6PM ARRIVING OMAHA 2AM OMAHA NEBR=

BELL SENDING FOLLOWING WIRE THIS AFTERNOON TO PRESIDENTS OF FEDERAL RESERVE BANKS AND ASKS FOR VIEWS OF MEMBERS OF BOARD BY 4 PM TOMORROW FRIDAY AFTERNOON. THIS WIRE FOLLOWS INFORMAL DISCUSSION AT TREASURY TODAY. IF YOU HAVE ANY VIEWS TO EXPRESS SUGGEST YOU WIRE BELL DIRECT IN THE INTEREST OF TIME OR WIRE US AND WE WILL FORWARD IT TO BELL; QUOTE

SECRETARY WOULD LIKE TO HAVE BY FOUR PM WASHINGTON TIME TOMORROW YOUR COMMENTS ON THE FOLLOWING;

THIRD WAR LOAN DRIVE TO BEGIN MONDAY SEPTEMBER TWENTY ENDING SATURDAY OCTOBER NINE. REOPEN ON JUNE TWENTY EIGHT LAST 2 1/2 PERCENT BOND PRIMARILY FOR INSURANCE COMPANY FUNDS BUT ALLOW ANYONE TO COME EXCEPT COMMERCIAL BANKS AT SAME TIME OFFER PRIMARILY FOR THE BANKS, A TWO AND ONE HALF BILLION DOLLAR FOUR TO FIVE YEAR NOTE OR SIX TO TEN YEAR BOND END=

END1.

4 PM 2 1/2.

WESTERN UNION

(21)

124

1943 JUN 5 PM 8 41

MA347/2=

THIS WILL BE A PUBLIC OFFERING AND OPEN TO ANYONE WHO CARES TO SUBSCRIBE WE ARE NOW CONSIDERING PLACING A LIMITATION ON AMOUNT THAT A BANK CAN SUBSCRIBE SUCH AS A CERTAIN PERCENTAGE OF DEMAND DEPOSITS ON JULY NINETEEN OFFER A NEW CERTIFICATE TO RAISE FUNDS TO MEET THE AUGUST ONE MATURITY THIS CERTIFICATE MIGHT POSSIBLY BE INCREASED BY FIVE HUNDRED MILLION DOLLARS IF ADDITIONAL FUNDS ARE NECESSARY AT THAT TIME, SOME TIME IN AUGUST PREFERABLY BEFORE THE FIFTEENTH OFFER A NEW SECURITY IN EXCHANGE FOR THE ONE BILLION FOUR HUNDRED MILLION DOLLARS OF 3 1/4 PERCENT 1943-45 BONDS WHICH WILL BE CALLED FOR PAYMENT ON OCTOBER FIFTEEN THIS REFUNDING IS SUGGESTED FOR THIS TIME IN ORDER TO GET IT OUT OF THE WAY BEFORE THE DRIVE BELL UNQUOTE=

RANSON.

3 1/4 1943-45.

Over the next year, the System will add perhaps 7 billion dollars to its holdings in order to give to banks the reserves necessary to offset a loss of 4 billion dollars in currency and an increase of 3 billion in required reserves. Probably most of this total will be in bills and a large part of it in the option account. The commissions to dealers on bill purchases could be eliminated if the System placed a bid with the Treasury for each issue of bills for not only the amount of each week's maturity but an additional amount to provide for an expected increase in the portfolio and purchased other bills from dealers only at the buying rate. Otherwise, if the System purchases a billion dollars net of bills from dealers and turns over the present billion dollars of holdings under the regular authority four times in the year, total purchases of 5 billion dollars would net the dealers nearly $200,000 of gross profits. In addition, the System must replace maturities of a billion dollars of certificates, which might net the dealers $100,000, and of 600 million dollars of notes and bonds, which might net them another $100,000. The System's purchases and sales to maintain the pattern of rates may aggregate 2 or 3 billion dollars, which may bring the dealers $300,000 in profits.

The wide fluctuations in required reserves and in excess reserves brought about by the elimination of reserve requirements on war loan deposits may result in increased trading and consequently in increased profits to dealers. Other buying and selling will be large and will increase. Finally, the dealers will continue to make large profits on subscriptions for new Treasury offerings.

While all of this may seem to be of small importance, the System is in the position of adding between $500,000 and a million dollars a year to the profits of a group of dealers who perform a useful function but about whose activities the System has relatively little knowledge and over whom the System has relatively little control. It may well be that the net profits of dealers are excessive or they may be only sufficient for the maintenance of a necessary function. The undesirable activites of dealers and of other groups in the market may be of great or of little importance. At any event, it would seem that the System should have knowledge of and control over the activities of the dealers and of other elements in the Government securities market.

There follows a list of some regulations that might be made applicable to all dealers and brokers in Government securities:

1. The submission of regular reports of trading, balance sheets, and profit and loss statements.

2. Regular examination of the books.

3. Prohibition of (a) the dissemination of information, whether true or false, to the effect that prices are likely to rise or fall because of the operations of some person, such as the Federal Open Market Committee, (b) the making of false or misleading statements as to any material fact, and (c) the effecting of transactions in series for the immediate purpose of causing the market to be active or causing quotations to move with the ultimate purpose of thus inducing other persons to buy or sell.

4. The establishment of a code of uniform and fair trading practices.

Chairman Eccles

STRICTLY CONFIDENTIAL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

R&S 100-718
June 19, 1943

Board of Governors — Federal Open Market Committee meeting

L. M. Piser and David M. Kennedy

The exemption of war loan deposits from reserve requirements has completely reversed the timing of changes in required reserves of member banks. Instead of increasing sharply during the drives required reserves now dedine sharply at such times and increase substantially between drives. In the December drive, required reserves increased by about 800 million dollars; in the April drive, required reserves declined by 1.4 billion dollars. Between the first and the second drive, required reserves showed little change; after the April drive, however, they increased by a billion dollars. It is expected that between now and the end of August, required reserves will increase by an additional 1.3 billion dollars, while during the September drive they will decline by 1.5 to 2.0 billion dollars.

This reversal in the movement of required reserves, and consequently of excess reserves, has considerably altered the timing of Federal Reserve security transactions. It is necessary for the System now to make large purchases between the drives and large sales during the drives. If excess reserves are maintained at about 1.5 billion dollars, between now and the end of August the System will have to increase its holdings of Government securities by about 2.2 billion dollars in order to offset the increase of 1.3 billion in required reserves and an increase of 900 million dollars in money in circulation. During the September drive, the System will be able to reduce its holdings.

The situation is complicated by the present necessity of maintaining a pattern of rates that was established when excess reserves were higher and the outstanding amount of short-term securities was small. Under the present pattern, there is a substantial demand for intermediate and long-term securities and a substantial supply of short-term issues. In maintaining the pattern, the System has sold the former securities and bought the latter. Since the beginning of the year, the System's holdings of Treasury bonds have declined by 1.2 billion dollars and of Treasury notes by 500 million dollars, while holdings of bills have increased sharply.

The System's holdings of some issues of bonds that are in substantial demand have been completely exhausted, and holdings of other issues are small. Government agencies have placed some of their holdings at the disposal of the System in an attempt to maintain the pattern. The Treasury is offering a new issue on June 28, not because they need the funds but in an effort to maintain the pattern. The situation may come to a head during the September drive, when excess reserves will increase sharply and banks will be anxious to add to their holdings. If banks in September will repurchase bills instead of bidding for longer issues, it may be possible to maintain the pattern, but at some time in the future the ammunition probably will be exhausted.

One possible solution would be to bring the market into balance again by increasing the bill rate and decreasing the intermediate and long-term rate by extending the maturity on new issues. Both the Treasury and the System, however, are committed to maintaining the present pattern of rates. Another possible solution would be to discontinue the issuance of 3-month bills and 1-year certificates and to substitute 6-month or 9-month certificates. This procedure would have little or no influence on the demand for intermediate and long-term bonds unless at the same time the short-term rate were increased. It might be possible, however, to make some revision in the rate at the time of the change.

The best solution would appear to be to make no further increase in the weekly offering of bills, which is now a billion dollars, and to confine future increases in the debt to 2 per cent bonds and longer issues. If this procedure did not correct the situation, the amount of the short-term debt could be decreased, and as a last resort the pattern of rates might be altered. If the present situation should reverse itself in the future, the short-term debt could be increased whenever such action might appear to be desirable.

Other subjects that might be considered at the meeting are as follows:

1. The System might seek to arrange with the Treasury for the direct replacement of maturing bill issues. Between now and the end of August, the System not only will be replacing on the average 200 million dollars of maturing bills a week but will be adding on the average 200 million of securities to the portfolio. These additions will probably be largely in bills. The mechanics of replacing the maturities would be simplified if replacement were made direct with the Treasury rather than retaining the present intermediate step by which dealers purchase bills from the Treasury and sell them to the System. Arguments against a change in the present procedure are that (1) investors are now given an opportunity to purchase bills from the dealers' weekly allotment, and some bills are distributed in this manner, and (2) the public might misunderstand the action and construe it as adding to inflation.

2. If excess reserves are kept at a low level, the System just prior to each bank financing might purchase a sufficient amount of securities to enable the banks to purchase the amount of the offering and no more. By purchasing a part of the weekly bill issue direct from the Treasury, the System would supply promptly the necessary excess reserves with little disturbance to the market. These direct purchases would be in addition to the direct replacement of maturities. The purpose of this change would be to limit the increase in bank holdings of Government securities. The change would not necessarily accomplish this purpose, however, since banks are always able to sell bills to the Reserve Banks at the buying rate and with the additional reserves thereby provided to purchase several times that amount of securities. Banks now hold 7 billion dollars of bills that could be used for the further expansion of bank credit. The only really effective limitations on increases in bank holdings in the present situation are their own policy to limit their holdings, which is not very strong, and the amounts that they are able to purchase in the market or on subscription from the Treasury.

3. Subscriptions for new issues by recognized dealers might be further limited, or all dealers and brokers might be allotted new issues on the same basis as commercial banks. Large amounts of dealer subscriptions are sold to commercial banks at premiums, and the banks have a justifiable complaint in this regard. It is estimated that in the April drive the recognized dealers made a profit of close to a million dollars on their subscriptions.

4. The supervisory authorities might issue a statement condemning the practice of banks in making speculative loans on Government securities. The amount of speculation increased considerably in the April drive. Loans by weekly reporting member banks to others than brokers and dealers for purchasing and carrying securities increased by 274 million dollars between April 7 and May 5, compared with an increase of 53 million in the December drive. Although some of these loans were made to investors who are repaying them from current income, substantial loans undoubtedly were made to speculators who obtained a quick profit out of the drive.

5. A partial payment plan might be inaugurated in the next drive. Subscribers would be enabled thereby to invest not only accumulated funds but funds that they expect to receive in the near future. If as funds accumulate they are absorbed by repaying loans on securities previously purchased, there is less chance that they will be used for inflationary buying. Such a plan would also make it easier to lengthen the period between the drives to six months. The public over a period of years has been accustomed to making instalment purchases, and this method of buying securities might have a popular appeal. If the Treasury is unwilling to inaugurate a partial payment plan, the 2 1/2 per cent bonds should be placed perhaps continually on offer in order to provide an outlet for funds as they accumulate.

6. In raising funds between the drives the Treasury might issue certificates that would mature at the time of the succeeding drive. Investors could place in the certificates funds that accumulate between the drives and could use the proceeds from the redemption of the certificates to purchase new issues in the drives. In addition, to the extent that the Treasury would sell securities only as funds were needed and would arrange the maturities of these issues to coincide with the receipt of funds during the drives, the Treasury balance would not increase to such a high level as is the case under the present program, and the amount of interest payments would be correspondingly reduced.

7. Since the Treasury first offered bills on a fixed-price basis, the weekly tenders on this basis have averaged 80 million dollars. If half of these funds represent tenders that would not have been placed under the old method, the change will raise during the 13-week cycle more than 500 million dollars of new funds. This amount could be increased by a renewed campaign by the Federal Reserve Banks.

8. In the next drive, the lowest denomination of the 2 1/2s should be reduced from $500 to $100. Although most small investors prefer to purchase savings bonds, there are many who for one reason or another prefer marketable issues. The change would meet this demand and would probably increase total sales to nonbanking investors.

9. The $25 denomination of Series E savings bonds should be discontinued. The cost of registering, issuing, and redeeming the large number of these bonds is substantial. The price of the $50 denomination can be accumulated by savings stamps, payroll deduction, or otherwise. This change probably would result in little or no decline in total sales to nonbanking investors.

10. The Series F and G savings bonds might be discontinued. They give an unjustified subsidy to fairly large investors and increase the already substantial short-term liabilities of the Treasury. On the other hand, their discontinuance would lose some sales that are now made to nonbanking investors.

11. The Treasury might sell annuities. A number of investors particularly purchasers of Series E bonds under the payroll deduction plan might prefer to have their investments in this form rather than in the form of a large number of individual bonds that mature in a few years. This change would probably increase sales to nonbanking investors.

12. Commercial banks might be permitted to hold new 2 1/2 per cent bonds in the amount of $100,000 or their savings deposits, whichever is smaller. A number of commercial banks hold a large proportion of savings deposits and are at a disadvantage as compared with mutual savings banks and other savings institutions. This change would remove some of the inequality.