STRICTLY CONFIDENTIAL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

November 3, 1943

Chairman Eccles

L. M. Piser

Attached is a draft of the brief statement that you asked me to prepare yesterday. I believe that it would be a mistake to purchase certificates at yields no lower than 7/8 of one per cent because of the resulting difficulty in obtaining sufficient tenders for bills.

November 3, 1943

Treasury bills at 3/8 of one per cent are no longer held as an investment, but are now almost solely held as an instrument for meeting day-to-day adjustments in the reserve positions of commercial banks. At the present time, the Federal Reserve System holds 5.5 billion dollars of bills, and other investors hold 7.5 billion. This latter amount is far more than is needed by banks for day-to-day adjustments in their reserve positions. A further increase in the outstanding amount of bills is, therefore, unnecessary.

In providing reserves, it should be the policy of the System to encourage banks to sell bills to the System rather than other types of securities. As long as the System continues to pay premiums on certificates, however, it is encouraging banks to sell certificates at a profit rather than to sell bills. If the Treasury does not adopt one of the proposed methods of increasing the rate on short-term paper, thus restoring it to an investment status, the System should frankly recognize that the 3/8 of one per cent rate on bills is really a discount rate and that bills are not investments.

The shortest-term investment paper would then be certificates, which the System should support only at a yield sufficient to maintain one-year certificates at 7/8 of one per cent. The market might appraise the certificates with maturities of from one day to one year at varying yields, but the System would not purchase at yields other than approximately 7/8 of one per cent. The System would continue to purchase bills at the buying rate of 3/8 of one per cent. The present outstanding amount of bills coupled with the elimination of the profit on selling certificates would enable the System for sometime to supply necessary reserves by buying bills rather than certificates at premiums.