

FEDERAL RESERVE BANK
OF NEW YORK 7

April 14, 1944.

Hon. M. S. Eccles, Chairman,
Federal Open Market Committee,
c/o Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Marriner:

Since returning to the bank, I have gone over the two drafts of a supplementary memorandum on Treasury financing which you had Mr. Piser send to me. As I told you on the telephone, after working over the memorandum we ran into a snag in the mechanics of the two-way bill offering. With a fluctuating volume of weekly exchanges of $5/8\%$ and $3/8\%$ bills for $3/8\%$ bills, by the Federal Reserve Banks, it would not be possible to maintain both a constant weekly offering of bills of two maturities and a fixed aggregate amount of bills outstanding. The resulting complications would almost certainly make the program unacceptable to the Treasury, and perhaps to the public, and would have drawbacks for us because of the erratic uncontrolled additions to and subtractions from the supply of funds in the market which would result. We think we have overcome some of our difficulties, however, by providing for a constant weekly volume of exchange of $3/8\%$ bills by the Federal Reserve Banks. Accordingly, I am sending you my idea of how the memorandum should read for presentation to the Secretary of the Treasury. For convenience, I have included enough copies for the other members of the Executive Committee at the Board, and I have also sent a copy to Hugh Leach at Richmond.

Aside from changes in form and organization, you will note the following changes in substance:

a. I have left out the recommendation that a public statement be made that no other kinds of financing will be used between drives, as I think this would be an unnecessary advance commitment without offsetting advantages, which the Treasury would reject.

b. I have left out the alternative of a 6-months $5/8$ of 1% bill, as this rate for 6 months would actually be a reduction in rates on the basis of the "pattern" as we have allowed it to swing recently.

c. I have moderated the claims as to the amount of increased sales of bills to banks and business concerns to be expected as a result of the change in rates. I do not think it necessary or desirable to make our claims too sweeping, particularly in view of a possible increase in the tendency of banks and corporations to extend maturities in order to get better yields, a natural consequence of our long continued maintenance of a pattern of rates.

d. I have left out some of the details of methods of offering bills, deeming this to be a subject for discussion by the technicians, rather than for inclusion in a memorandum from the Executive Committee to the Secretary of the Treasury.

e. I have avoided giving our blessing to an extension of the practice of fomenting bids by dealers to fill our requirements, and renewed our suggestion of an exchange offering. If an extension of dealer bidding is to be included, it should be on the initiative of the Treasury, not us.

One other thing we should have in mind. Our fixed buying rate for bills, with repurchase option, is in effect a payment of interest on demand deposits. If now we are to contemplate a large increase in use of this facility by corporations, and other nonbank investors, we may expose ourselves in the battle of Regulation Q.

Yours sincerely,

(Signed) Allan Sproul.

Allan Sproul, Vice Chairman,
Federal Open Market Committee.

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