Chairman Eccles

STRICTLY CONFIDENTIAL

R&S 100-936
April 18, 1944

Chairman Eccles, Gov. McKee, Gov. Draper — Supplementary recommendation to

L. M. Piser — the Treasury

After giving careful study to Mr. Sproul's letter of April 14 and his new draft of the supplementary recommendation, it seems to me that, in order to overcome a minor difficulty in the previous draft of the recommendation, a number of major difficulties have been introduced. What I call the minor difficulty is the fact that with a fluctuating volume of issues of three-month and five-month bills each week, the amount of maturities will fluctuate, making it impossible for the Treasury to maintain both a constant weekly offering of bills and a fixed aggregate amount outstanding. The fluctuations from week to week in the amount of offerings or of outstanding bills, however, would not be more than perhaps 200 million dollars. In view of the existence of a buying rate on bills and the flexibility that it provides to the market and in view of the fact further that much larger changes in reserves are readily handled at the present time, I do not believe that such fluctuations would produce any more than a minor problem.

The solution suggested is to offer the three-month bills only in exchange for maturing bills and to retain the present buying rate of 3/8 of one per cent for the three-month bills. After the lapse of two months, there would be outstanding two issues of bills with the same maturity date, to one of which a buying rate of 5/8 of one per cent would apply and to the other of which a buying rate of 3/8 of one per cent would apply. The existence of two issues of bills with the same maturity date but subject to different buying rates would be impossible to explain.

There would be little or no reason for any holder to exchange unless they wished to do the Treasury a favor. It would be obvious, therefore, that this particular provision was inaugurated only to serve as a means of providing the System with a method of reducing its earnings on Government securities. The proposal for exchanges made last fall involved giving exchange privileges for a new issue of bills that would be of the same maturity and at the same rate as the issue sold for cash and consequently would be widely accepted by holders. It would not, therefore, have been open to the accusation of being devised solely to enable the System to do the Treasury a favor.

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