

C O P Y

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September 22, 1944

Honorable Daniel W. Bell,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Dan:

Allan and I reported to the Federal Open Market Committee yesterday our meetings with you and with the bankers' group. The Committee approved all of the memoranda that have been sent to the Treasury since the last meeting of the Committee and also approved the positions that we took at the meetings with you and with the bankers' group. The Committee also discussed fully the various items on the agenda that you prepared for the bankers' group.

The opinion of the Committee regarding several of the items included in the agenda rests upon the decision that the Treasury makes with respect to free riding during the Sixth War Loan. The Committee believes that unless the Treasury takes strong measures to reduce free riding the situation will become intolerable. The Committee concurs in the various suggestions for meeting this situation that were included in the memorandum of August 11, particularly the suggestion for a down payment of 25 per cent. If the Treasury follows these suggestions, the Committee recommends a goal of 12 billion dollars for the Sixth War Loan, to be followed after the drive by a direct bank financing of 3 billion of certificates, and a basket of securities patterned along the same line as that of the Fifth War Loan. The bank offering should be announced along with the details of the drive.

Regarding the other items, the Committee recommends (1) that the drive start as early as possible, preferably around November 15, (2) that deferred payments for insurance companies and savings banks be included, (3) that a campaign to encourage the withdrawal of bank deposits for investment in Government securities be undertaken, provided that no attempt is made to specify a formula for such withdrawals, (4) that banks be permitted to subscribe for bonds during the drive up to an amount that will bring their total holdings to no more than \$600,000 or 30 per cent of their savings deposits, including their time deposits held by those eligible to hold savings deposits, and (5) that banks be permitted to deal in the restricted issues with no limitation except that their total holdings at no time may exceed \$600,000 or 30 per cent of their savings deposits as above defined.

The Committee is strongly of the opinion, for the reasons set forth in the September 13 memorandum, and which Mr. Sproul and I discussed with you orally, that the Treasury should make no further increase in the weekly bill offering. According to your estimates, the cash balance on November 15 would exceed 5 billion dollars. With access to an additional 5 billion dollars through direct borrowing from the Federal Reserve, the balance would be sufficient to meet any possible emergency. If the Treasury, however, still feels

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that it needs to raise additional funds before the beginning of the Sixth War Loan, the Committee recommends that the offering consist of 1 1/4 per cent notes or possibly of certificates. If the Treasury decides to increase the weekly offering of bills despite the opposition of the Committee, the Committee believes that the additional offering should not exceed 200 million dollars a week for the seven or eight weeks before the beginning of the drive and that no additional bills should be offered during the drive.

In my absence, and in the absence of Mr. Sproul as Vice Chairman of the Executive Committee of the Federal Open Market Committee, Mr. Ronald Ransom will be acting chairman and he and technical advisers of the Committee will be available for consultation with the Secretary and you at any time.

Sincerely yours,

M. S. Eccles, Chairman,
Federal Open Market Committee.