From Report of Discussions with the Treasury on June 27, 1942

"The representatives of the Federal Reserve System believe that a modest rise in short-term rates of interest (the Treasury bill rate moving up to, say 1/2 of 1%) could be expected; that this would promote a desirable wider distribution of such securities; and that it would not endanger the maintenance of a maximum rate of interest of 2 1/2% for Treasury borrowing, nor would it be likely to affect any rates, beyond the 3 or 4 year maturities. It was emphasized also that to give the banks as much as possible of these short maturities would reduce the amount of longer term financing to be done through the banks, and that the net cost to the Treasury, therefore, would be less than it otherwise would be, even though short-term rates firmed somewhat. Treasury representatives indicated that they had an open mind on the general question of a further rise in short-term rates of interest."

Meeting with Mr. Bell and Treasury Staff on July 22, 1942

"CHAIRMAN ECCLES: . . . . . We would fix the bill rate at 1/2 per cent and establish a discount rate on the same basis. . . . it is quite apparent to us that we have pretty well exploited the 3/8 per cent rate because the excess reserves throughout the country stay about where they were with no tendency to decline. There may be some more that you can get but we feel that at 3/8 they are not interested. Some of these funds will come at 1/2. We don't believe you could go above a 1/2 per cent rate on bills without affecting the whole picture. A 1/2 per cent rate on bills is about the top.

"MR. HAAS: If you increased the rate to 1/2 per cent, wouldn't you be right back where you were a few weeks ago when the 3/8 rate was considered? Would it then be urged that the rate go to 3/4 per cent?

"CHAIRMAN ECCLES: I do think there is a ceiling on the bill rate. You might exploit funds by making it higher, but there are other objections that would make it impossible to make it higher. If I felt that 1/2 per cent on bills and a relative rate on certificates would affect the whole rate structure, I would not favor it. I think you can exploit reserves outside of New York by a little better rate without jeopardizing in any way the intermediate or long-term financing at all."

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Memorandum Approved on July 29, 1942 for Presentation to the Secretary of the Treasury

The System recommended increasing substantially the amount of short-dated obligations in the form of bills and certificates as an outlet for bank funds as well as for liquid nonbank funds. With respect to an increase in the bill rate the memorandum stated:

> "We should like to see the bill rate raised to 1/2 per cent, because we think this would help to mobilize some of the unused reserves of banks outside of the money centers, and also some nonbank funds. Establishment of a 1/2 per cent rate at this time, prior to the issuance of a one-year certificate, makes it possible to have a rate on the certificates that is more likely to attract nonbank funds. It is proposed not to touch the rate again for the duration, except at the Treasury's suggestion."

Memorandum Entitled "Treasury Financing Program", July 13, 1943

"Herewith there are submitted recommendations for a Treasury financing program. These recommendations have been made with reference to the System's commitment to maintain the existing pattern of rates. As is pointed out below, this pattern can no longer be maintained, unless the spread of rates is somewhat reduced and the proportion of short-term issues to longer issues in the offerings is also reduced. The proposed program would, we believe, accomplish the desired purpose.

"Since the end of April, the Federal Reserve System has increased its holdings of Treasury bills by 2.0 billion dollars; in other words, it has absorbed the total increase in outstanding bills during the period. Holdings of certificates have increased by 100 million dollars. On the other hand, there has been a substantial demand for bonds and a moderate demand for notes. Since the end of April, the System's holdings of bonds have declined by 560 million dollars and of notes by 230 million. This development is probably a reflection of (1) a growing confidence in the maintenance of approximately the present level of the market, resulting in a shift by investors to higher rate issues, (2) an extension of maturities by commercial banks because of a need for larger earnings, particularly by the smaller banks, and (3) the relatively large increase in the outstanding amount of bills and certificates.

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Meeting with Mr. Bell and Treasury Staff on July 16, 1943

Chairman Eccles: . . . discussed at length the reasons for the position of the Federal Reserve representatives as set forth in the memorandum of July 13 for raising the short-term rate by using a nine-month bill and restricting other issues to 1 1/2 per cent notes and 2 and 2 1/2 per cent bonds. He also made a statement that the continuation of the 3/8 per cent rate on 90-day bills would ultimately have the effect of forcing down the rates on longer-term securities and that that point should be faced frankly.

Mr. Bell stated that that was not the intention of the Treasury. Chairman Eccles then suggested that the maintenance of the 3/8 per cent bill rate would have that effect, and that it would be necessary under present circumstances either to lengthen the maturity of the 2 per cent bonds to 8-10 years and later to 9-11 or 10-12 years or to reduce the rate to 1 3/4 per cent.

Supplementary Recommendation by the Executive Committee of the Federal Open Market Committee to the Secretary of the Treasury, April 27, 1944

"In brief, we now propose that there be two issues of Treasury bills, one of three-month maturity, which would be largely if not wholly taken by the Federal Reserve Banks, and one of five-month maturity, which would achieve the wider distribution we seek in the market. In order to make this proposal effective, we would recommend that:

"1. The Treasury plan to raise funds between drives largely by means of five-month bills instead of certificates or longer-term securities.

"2. The Treasury offer initially 1.2 billion dollars of bills each week, including 600 million of three-month bills and 600 million of five-month bills. At the end of each three-month period, the Treasury would increase the weekly offering of three-month bills, in order to enable the System to provide banks with such reserves as are needed on the basis of 3/8 instead of 5/8 of one per cent.

"3. The Federal Open Market Committee direct the Federal Reserve Banks to establish a buying rate of 5/8 of one per cent and a repurchase option on the new bills.

"4. The Federal Open Market Committee direct the Federal Reserve Banks to offer each week to purchase from dealers the amount of the offering of new three-month bills and to maintain the present buying and repurchase rate of 3/8 of one per cent on such bills, the rate being maintained initially to protect existing holders and subsequently to avoid its disappearance from the market.

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"This proposal has the following advantages:

"a. By offering 1.2 billion dollars of bills a week, the Treasury could raise 8.0 billion of funds. Following the completion of both cycles, there would be outstanding 7.8 billion dollars of three-month bills (600 million a week for 13 weeks) and 13.2 billion of five-month bills (600 million a week for 22 weeks), making a total of 21 billion, compared with the present 13 billion. This amount of new funds would cover the maximum necessary interim bank financing in 1944.

"b. The rate on the new five-month bills would be in line with the present pattern of rates as indicated by the market for certificates of indebtedness that mature in five months, but the difficult task of maintaining a market pattern between 3/8 and 7/8 of one per cent would be relieved in considerable measure.

"c. The net cost to the Treasury would probably be no larger than if the financing were done partly with 3/8 of one per cent bills and partly with 7/8 of one per cent certificates or higher-rate securities. What the Treasury would lose by shifting some of the bills from 3/8 to 5/8 of one per cent would be regained by shifting from certificates at 7/8 of one per cent to bills at 5/8 of one per cent. To the extent, moreover, that the higher-rate bills proved attractive to nonbank investors, so that they could be used to reduce materially the amount of Treasury financing to be done indirectly through the banks, the net cost of the Treasury's borrowing would be less than under the present program.

"d. It would eliminate the offering of certificates or longer-term securities between drives. Such offerings require special announcements that call attention to direct bank financing and are an indication that the Treasury has not obtained sufficient funds from nonbank investors. Such offerings, moreover, involve problems of handling subscriptions and making allotments and in the case of certificates necessitate annual refunding offerings. Offerings of bills, however, are more or less routine and can be used to provide whatever amount of residual financing is needed and whenever it is needed.

"e. Treasury bills would regain some of the character of market obligations, whereas now they are tending to become almost solely a medium for Federal Reserve financing.

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"Banks are now keeping their holdings of three-month bills at low levels, because of the unattractive rate, and are purchasing certificates for their shortest-term investments. The higher rate on bills would result in an increase in commercial bank buying and holding of bills and would encourage banks to meet fluctuations in reserves through changes in their bill portfolios rather than through buying and selling certificates, notes, and bonds.

"f. More important, there would also be an increase in the buying and holding of bills by business concerns, which are now holding large amounts of cash on deposit with banks. Since bills are as liquid as deposits, business concerns could reduce their deposits substantially and meet some of their fluctuating needs for cash by changes in their bill holdings rather than through bank deposits. By this process, the amount of nonbank investment in Government securities would be increased, and the amount of necessary bank financing would be reduced."

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