STATE·MUTUAL·LIFE
Assurance Company
of Worcester, Massachusetts
·INCORPORATED·1844·

GEORGE AVERY WHITE
PRESIDENT

October 31, 1946

Mr. Marriner S. Eccles, Chairman
Board of Governors
Federal Reserve System
Washington 25, D. C.

Dear Mr. Eccles:

As a former Chairman of The New England Council's Bank Management Conference I was particularly interested in your appearance on its program last week.

Among the many favorable comments I heard were references to your suggestion of a government obligation which would be particularly attractive to savings institutions and individual savers. It would seem to me that the present "G" bonds are ideal for this purpose and would eliminate the necessity of issuing a new type of security.

It is difficult for me to see why "G" bonds should not be made available to life insurance companies in larger amounts than at present. Other types of trustees and individuals may purchase "G" bonds to the extent of $100,000 a year, and a corporate trustee may, of course, purchase this amount for each individual trust. A life insurance company is just as truly a trustee of the funds of its policyholders, and yet it is limited to the purchase of $100,000 a year in the aggregate. Why would it not be feasible for the government to permit life insurance companies to purchase "G" bonds to the extent of $1,000 per policyholder, which would mean that in the aggregate life insurance companies might invest up to approximately 50% of their assets in this type of security?

I realize that the government might want to place some restriction on the surrender of these securities, if it were thought there were any danger of large scale surrenders proving embarrassing. Personally, I doubt whether there would be any such danger. Also, I realize that the government might be concerned over the possibility that present holdings of government securities would be dumped in order to make funds available for the purchase of "G's", but again I question whether there would be any such result, and if there were that hazard, there could be a further limitation on the purchase of

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Mr. Marriner S. Eccles   October 31, 1946

"G" bonds by life insurance companies, limiting their purchase to the increase in assets of the company, or to funds becoming available for investment other than through the sale of present holdings of other government securities.

Perhaps I have not thought this through, and there may be reasons why "G" bonds cannot be offered in the manner suggested. However, it appears to me that at the present time the policyholders of life insurance, who are as truly beneficiaries of a trust administered for their benefit as are the beneficiaries of other trusts, are being discriminated against in the matter of "G" bonds, and it would further seem to me that the "G" bond offers all of the factors that are desirable in a security such as you apparently had under consideration in your discussion at Boston.

I shall very much appreciate your consideration of this matter which is of great consequence to the seventy million policyholders of life insurance as well as to those who feel that a further demonetizing of the national debt is essential as an anti-inflationary measure. If "G" bonds were made available as suggested, it would seem to me that many of the high grade corporates now selling on a basis of little more than $2\frac{1}{2}\%$ would prove unattractive in comparison, and that the spread in yield between government obligations and corporates, which most investors think should widen, would be so effected.

Respectfully yours,

[signature]

President

1 - G bond - if made - should ~~[illegible]~~ be limited to discourage switching -
would not seem wise to accelerate - as long as its paying [illegible]
as at present, out of cash surplus & net sales of E [illegible] in
excess of redemption - favorable opp[ortunity] now to acquire it
favorable rates - mortgages - accumulations not burdensome. Time
demand for mortgage money & other capital formation
which [illegible] no doubt will come when may be demands & G bond - except
make avail to ins cos, savings banks & other fiduciaries
[illegible] 12 yrs -

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November 5, 1946.

Mr. George Avery White, President,
State Mutual Life Assurance Company,
Worcester, Massachusetts.

Dear Mr. White:

I was interested to have your letter of October 31, and I find myself generally in agreement with your viewpoint, particularly with regard to the type of security which the Treasury might issue for insurance companies, savings banks, and other fiduciary institutions. It seems to me that you have thought this matter through very carefully.

Possibly we would not see eye to eye as to the time when such an issue might be appropriate. In other words, I would not favor the issuance of a special G-type bond as long as the Treasury is not in need of new money and is paying off debt out of its cash surplus and the net proceeds from the sale of E, F and G bonds. Also, it seems to me that the insurance companies and other investors are not burdened with overly large accumulations, and that with the demand for mortgage money and other outlets for capital, together with the fact that long-term Governments can be purchased in the market on fairly favorable terms at this time, sufficient opportunities exist for investment. The time will come, no doubt, when under other conditions it may be desirable to make available to insurance companies, savings banks, etc., a bond of the general type that you have in mind and that I sought to describe in my talk in Boston. It should have a longer maturity, however, in my opinion, than the present G bonds.

I appreciate having your letter and the benefit of your suggestions.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b

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