

FINAL REPORT BY THE SPONSOR
ON THE CORPORATE BOND STUDY, OFFICIAL PROJECT No. 765-97-3-13
COVERING
INTERIM PERIOD, JULY 1 - NOVEMBER 28, 1941
AND
ENTIRE LIFE OF PROJECT, JANUARY 17, 1939 - NOVEMBER 28, 1941
JANUARY 30, 1942

NOTE: This report to the Work Projects Administration follows the outline prescribed by the WPA and is organized so as to meet WPA requirements.

CONTENTS

	Page
I. Project Identification	1
II. Project Direction	1
III. Project History	2
IV. Aim and Scope of Project	2
V. Work Completed	4
VI-VII. Problems of Operation	11
VIII. Publication of Results	13
IX. Cost of the Project	13

January 30, 1942

Final Report by the Sponsor
 on the Corporate Bond Study, Official Project No. 765-97-3-13
 Covering
 Interim Period, July 1 - November 28, 1941
 and
 Entire Life of Project, January 17, 1939 - November 28, 1941

I. PROJECT IDENTIFICATION

Official Project Name	Corporate Bond Study
Work Project Name	None
Work Project Starting	January 17, 1939
Official Project Number	765-97-3-13
Work Project Number	1
Completion Date	November 28, 1941

NUMBER OF PERSONS ASSIGNED BY WPA

Average for July 1 - November 28, 1941	-	111
At end of period (on November 28, 1941)	-	9
Average for entire life of project	-	145

II. PROJECT DIRECTION

Official Sponsor
 Federal Deposit Insurance Corporation

Official Direction
 National Bureau of Economic Research

Cooperating Agencies
 Board of Governors of the Federal Reserve System
 Comptroller of the Currency
 Division of Statistical Standards, Bureau of the Budget
 Federal Reserve Bank of New York
 National Bureau of Economic Research
 Securities and Exchange Commission

Technical Consultants
 Fitch Investors Service
 Moody's Investors Service
 Standard and Poor's Corporation

II. PROJECT DIRECTION (cont'd)

Sponsor's Representative	Mr. Donald S. Thompson
Sponsor's Technical Director	Mr. Melvin W. Brethouwer
Sponsor's Associate Technical Director	Mr. Harold G. Fraine
W.P.A. Supervisor	Mr. Stanley A. Jankowsky
W.P.A. Technician	Mr. Stanley A. Jankowsky

III. PROJECT HISTORY

Date work began:

- | | |
|-----------------|------------------|
| 1. Under C.W.A. | None |
| 2. Under E.R.A. | None |
| 3. Under W.P.A. | January 17, 1939 |

IV. AIM AND SCOPE OF PROJECT

At the close of activities in November 1941 the Corporate Bond Study had recorded selected information on the characteristics and behavior of corporate bonds during the four decades beginning in 1900. The end products include schedules for all six parts of the project (see below), mechanical tabulating cards for three of these parts (two other parts are ready for punching; the other part calls for hand tabulation), and seventy-five preliminary tables (589 pages) for the three parts which have been carried through the punch card stage.

The project was undertaken to assemble corporate bond statistics in a form suitable for analysis by the individual cooperating agencies.

The investment data available from the six parts of the project are summarized below:

1. Record of Offerings, 1900-1938. Corporate bond offerings by year, industry, size of offering, coupon rate, and term to maturity (approximately 34,000 offerings of 26,000 bonds; data punched on 34,000 tabulating cards and summarized in six tables consisting of 128 pages).

- 3 -

IV. AIM AND SCOPE OF PROJECT (cont'd)

2. Record of Issue and Extinguishment Characteristics, 1900-1938. Characteristics of bonds at time of issue and extinguishment, such as market prices, yields expected and realized, private agency ratings, earnings of obligors, and legal status (approximately 9,300 offerings of 4,500 bonds; data punched on about 9,300 tabulating cards; 39 tables consisting of 281 pages present the number and par amount of offerings, classified by year of offering, size of issue group, and major industry group, for 39 characteristics on the punch card).
3. Default Record, 1900-1938. Number and extent of defaults, industries in which defaults have occurred, types of default and of settlement, and realized yields on defaulted bonds (approximately 1,000 bonds; data punched on about 1,000 cards; 30 tables consisting of 180 pages show the number and par amount of defaulted bonds, classified by year of default, size of issue group, and major industry group, for 30 characteristics on the punch card).
4. Periodic Record (quadrennial observations), 1900-1940. Prices, expected yields, realized yields, private agency ratings, market ratings, legal status, and outstanding amounts (approximately 4,200 bonds; data on schedules ready for punching; no tables).
5. Annual Record, 1900-1940. Yearly data similar to that on the Periodic Record for the actively traded issues covered by the latter (approximately 2,300 bonds; data on schedules ready for punching; no tables).
6. Monthly Record, 1900-1940. Monthly prices and expected yields to maturity for bonds of various grades (approximately 300 bonds; data on schedules ready for hand tabulation; no tables).

- 4 -

V. WORK COMPLETED

NOTE: The work listed below does not include operations chargeable to the project as a whole, such as the training of workers, experimentation with procedures, timekeeping and other WPA administration and maintenance activities, and operations associated with the liquidation of the project.

A. RECORD OF OFFERINGS^{1/}

July 1 -
November 28, 1941

1. Counting and filing Form 1 and Form 2 cards	51,000 cards ^{2/}
2. Sample checking various data on Form 1 cards	390 man-hours
3. Correcting tabulating cards and Form 1 cards	3,000 tab. cards & 2,000 Form 1 cards
4. Editing "Equipment Obligations" Form 1 cards	2,000 cards
5. Preparing following listings on IBM sheets:	
(a) Tabulations of offerings for each year classified by (i) Coupon, (ii) Industry, and (iii) Term to Maturity for approximately 1,500 bonds which were in the Record of Offerings and the Issue and Extinguishment Record (Sample 2). The purpose was to compare the accuracy of the Record of Offerings data with that of the Issue and Extinguishment Record. Accordingly, two separate tabulations were run, one using Record of Offerings cards and the other Issue and Extinguishment Record cards.	200 sheets
(b) Alphabetical listing of Record of Offerings tabulating cards, arranged by obligor and bond numbers. (Approximately 560 sheets with 60 lines per sheet.)	560 sheets

^{1/} See section D for table preparation work.

^{2/} Includes cards for bonds (Form 1) and obligors (Form 2) excluded from the tabulations, such as foreign bonds.

V. WORK COMPLETED (cont'd)

July 1 -
November 28, 1941

<p>(c) Two offering price data listings, one arranged by obligor and bond number and the other by coupon, term to maturity, obligor, and bond number, each having approximately 165 sheets with 60 lines per sheet. From these listings, yields can be computed for all offerings where coupon, price and term to maturity are known.</p>	<p>165 sheets</p>
<p>(d) "Cell-listing" of all Record of Offerings tabulating cards arranged by year of offering, industry and source of data for each size, ((i) under one million dollars in amount issued, (ii) one and under five million dollars in amount issued, and (iii) five million dollars and over in amount issued) of each type ((i) straight bonds, (ii) serial bonds, (iii) income bonds, (iv) railroad equipment obligations, and (v) other equipment obligations). (Approximately 800 sheets with 60 lines per sheet.)</p>	<p>800 sheets</p>
<p>6. Preparing work sheets in table form from the IBM sheets mentioned in 5 (a).</p>	
	<p><u>ENTIRE LIFE</u> <u>OF PROJECT</u></p>
<p>1. Transcribing, checking, and editing of Form 1 cards</p>	
<p> (a) in the Record of Offerings</p>	<p>24,900 cards</p>
<p> (b) contract modification cards</p>	<p>1,125 cards</p>
<p>2. Transcribing, checking, and editing of Form 2 cards</p>	<p>14,234 cards</p>
<p>3. Punching and verifying tabulating cards</p>	<p>33,588 cards</p>
<p>4. Tabulating for 6 tables</p>	<p>6 tables (128 pp.)</p>
<p>5. Preparation of various listings using punch cards (see detailed list in item 5 above)</p>	

V. WORK COMPLETED (cont'd)

B. ISSUE & EXTINGUISHMENT AND DEFAULT RECORDS^{1/}

	<u>7/1/41-11/28/41</u>		<u>Entire Life of Project</u>	
	<u>I & E</u>	<u>Default</u>	<u>I & E</u>	<u>Default</u>
1. Transcribing from Manuals	-	-	4,502 Forms ^{2/}	1,041 Forms
2. Field work	-	-	2,876 "	276 "
3. Prices and ratings transcribing	-	-	4,502 "	1,041 "
4. Computing	-	-	4,502 "	1,041 "
5. Quality checking on above operations	-	-	6,400 Hours	1,350 Hours
6. Editing - transcription and field	-	1,041 Forms	4,502 Forms	1,041 Forms
7. Editing - prices and ratings	-	89 "	4,502 "	1,041 "
8. Editing - computation	-	102 "	4,502 "	1,041 "
9. Final inspecting	-	1,041 "	4,502 "	1,041 "
10. Key punching and verification	-	1,065 Cards	9,269 Cards	1,065 Cards
11. Checking punch cards	9,269 Cards	1,065 "	9,269 "	1,065 "
12. Preparing transcription forms for filing	4,502 Forms	1,041 Forms	4,502 Forms	1,041 Forms
13. Record control on above operations		2,117 Hours		20,700 Hours

^{1/} See section D for table preparation work. Checking operations are not recorded here although completed as part of routine procedure.

^{2/} Not counting 735 transcriptions started but later found to represent bonds ineligible for these Records.

- 7 -

V. WORK COMPLETED (cont'd)C. TIME SERIES RECORDS^{1/}

	<u>7/1/41 -</u> <u>11/28/41</u>	<u>Entire Life</u> <u>of Project</u>
1. Transcribing data from manuals, I & E forms and other sources -- Periodic and Annual Records	83 Forms	4,502 Forms
2. Transcribing of prices and ratings -- P and A Records	83 "	4,502 "
3. Field work -- P & A Records	64 "	1,792 "
4. Unit head face checking and consulting -- P & A Records	778 Hours	4,050 Hours
5. Record control -- P & A Records	2,937 "	7,260 "
6. Default transcribing -- P & A Records	79 Forms	1,070 Forms
7. Phase 1 computing -- P & A Records	44 "	3,065 "
8. Phase 2 computing -- P & A Records	44 "	3,065 "
9. Phase 3 computing -- P & A Records	202 "	3,065 "
10. Prices and ratings transcribing -- Monthly Record	21 "	311 "
11. Computing price averages and yields -- Monthly Record	131 "	311 "
12. Final editing of Annual Record -- Agency ratings	2,255 "	2,255 "
13. Final editing of Annual Record -- Size of issue	803 "	803 "
14. Final editing of Annual Record -- Index of conversion values	370 "	370 "
15. Entering of market ratings -- P & A Records	4,146 "	4,146 "
16. Coding of data on P & A Records	4,146 "	4,146 "

^{1/} Checking operations are not recorded here although completed as part of routine procedure.

V. WORK COMPLETED (cont'd)

D. TABLE PREPARATION FOR RECORDS ON OFFERINGS,
ISSUE & EXTINGUISHMENT AND DEFAULT*

	<u>7/1/41 -- 11/28/41</u>	<u>Entire Life of Project</u>
	Number of Tabulations	
A. Record of Offerings		
1. Mechanical tabulation	-	75
	Number of Worksheets	
2. Transcribing data onto primary worksheets	80	1,484
3. Computing totals for primary worksheets	147	1,484
4. Transcribing data from primary to summary worksheets ^{1/}	256	256
5. Computing totals for summary worksheets	256	256
	Number of table pages	
6. Typing tables (figures only) ^{2/}	128	128
7. Proofreading of tables (figures only) and stripping on corrections ^{2/}	128	128
8. Drawing of table forms ^{2/}	128	128
9. Typing titles and headings ^{3/}	128	128
10. Computation checking of typed tables ^{2/}	128	128
11. Reproducing of tables ^{4/}	128	128
12. Collating of tables ^{2/}	128	128
	Number of Tabulations	
B. Issue and Extinguishment Record		
1. Mechanical tabulation vertical	62	62
horizontal	350	350
	Number of Worksheets	
2. Transcribing data onto primary worksheets	320	320
3. Computing totals for primary worksheets vertical	320	320
horizontal	350	350
4. Transcribing data from primary to summary worksheets	248	248
5. Computing totals for summary worksheets	248	248

* Checking operations are not included here although distinct steps in the procedure.

See next page for other footnotes.

- 9 -

V. WORK COMPLETED (cont'd)D. TABLE PREPARATION FOR RECORDS ON OFFERINGS,
ISSUE & EXTINGUISHMENT AND DEFAULT (cont'd)

	<u>7/1/41 - 11/28/41</u>	<u>Entire Life of Project</u>
	Number of Table Pages	
B. Issue and Extinguishment Record (cont'd)		
6. Typing tables (figures only)	108	108
7. Proofreading of tables (figures only) and stripping on corrections	108	108
8. Drawing of table forms	281	281
9. Typing titles and headings ^{3/}	281	281
10. Computation checking of typed tables	281	281
11. Reproducing of tables	281	281
12. Collating of tables	281	281
	Number of Tabulations	
C. Default Record		
1. Mechanical tabulation vertical	104	104
horizontal	152	152
	Number of Worksheets	
2. Transcribing data onto primary worksheets	424	424
3. Computing totals for primary worksheets vertical	424	424
horizontal	152	152
	Number of Table Pages	
4. Typing tables (figures only)	106	106
5. Proofreading of tables (figures only) and stripping of corrections	106	106
6. Drawing of table forms	180	180
7. Typing titles and headings	180	180
8. Computation checking of typed tables	180	180
9. Reproducing of tables	180	180
10. Collating of tables	180	180

^{1/} Of which, 196 were done by National Bureau personnel.

^{2/} Of which, 72 were done by WPA and 56 by National Bureau personnel.

^{3/} Entirely done by National Bureau personnel.

^{4/} Of which, 72 were done by WPA and 56 by SEC personnel.

NOTE: The footnotes above refer to the distribution of table preparation work after September 30, 1941. During October and November the WPA devoted itself to reproducing by photo-offset and collating the finished tables into three volumes (about 250 copies of each), while the National Bureau typed additional tables and the SEC reproduced them.

- 10 -

V. WORK COMPLETED (cont'd)E. SPECIAL PRICE AND YIELD STUDIES

During 1939 and 1940 preliminary investigations of prices and yields of corporate bonds were carried forward under the direction of Mr. Dirks, a member of the sponsor's staff. In recording data and computing yields he was assisted by a small staff of WPA workers. These preliminary studies were undertaken for planning the work on the Time Series Records but were also useful guides for selecting the sample of bonds for the Issue & Extinguishment and Default Records. They dealt not only with aspects of price and yield behavior but also with private agency ratings, the size of bond issues, and some mathematical analysis of the problem of weighting in group averages.

The following memoranda were prepared by Mr. Dirks with the use of the data assembled in the special price and yield studies:

1. The significance of prospective yields on callable bonds.
2. Classification by type of security and quotation activity of bonds in rating manuals.
3. Alternative bases for selection of bonds to be included in the study.
4. Trading activity on the New York Stock Exchange since 1900.
5. Comparability of sale prices with dealer bids and asks.
6. Relation of size of issue and quality ratings to quotation activity of corporate bonds.
7. Market quotations as a guide to bond quality.
8. Adaptation of simple interest principle to bond yields.
9. The simple interest principle for computing negative bond yields.
10. Appropriate yield averages and the problem of tabulation.

- 11 -

VI-VII. PROBLEMS OF OPERATION

Previous Semi-Annual Reports on this project have called attention to some of its operating problems. Some of the limitations of the WPA program for a project like this would not apply to a project starting out with well-established routine procedures which could be applied to data subject to uniform reporting rules. An undertaking like the Corporate Bond Study, however, was by nature a very difficult one. After the project started we were forced to experiment with the transcription form for each of the Records on which data were assembled and coded before we could issue definitions and procedures at once filling the expressed needs of the several cooperating agencies, suitable for the source books with all of their limitations, and adapted to the limited qualifications and high turnover of WPA personnel. Approval of technical plans for each of the six basic records had to be obtained from the Committee representing the cooperating agencies and detailed written instructions had to be prepared. The ever-present difficulty was to get instructions, either new or revised, into written form so as to have a basis for holding workers responsible under WPA's elaborate disciplinary procedure. We aimed to place responsibility for carrying out the instructions, as prepared by the sponsor's staff, with a small group of WPA supervisors who were selected after the project opened on the basis of technical performance on the project. The complex nature of WPA disciplinary rules, the high and unpredictable labor turnover, the basic difficulty of the work itself, and the small number (in terms of these factors) of WPA supervisors operated against the expeditious completion of the work.

The project always suffered from a shortage of WPA workers who were qualified for assignment to the more responsible tasks such as checking the work done by others, controlling the flow of work from one work unit to another, editing transcription records, summarizing published information and critical experimenting with new procedures. Many workers had had experience in the field of investments but most of them were unacquainted with the techniques of careful reading, analysis, and interpretation. While such a shortage of workers for key positions was a real hardship for the project one would expect the more competent and reliable workers (with exceptions, of course, due to the influence of factors like health and age) to be absorbed by private employment.

Even with a less shifting work force the task of supervising WPA personnel is beset with peculiar limitations, no matter how carefully the work force is selected (from whatever WPA labor is available at the time the project needs it) and in spite of the opportunity for most of the workers on the project to attain the top WPA security-wage classification (Grade 4, paying about \$95 per calendar month in New York City during most of the project's life). The personal problems of our WPA workers did not contribute to their interest in attaining results

- 12 -

VI-VII. PROBLEMS OF OPERATION (cont'd)

of high quality with a minimum expenditure of time. Yet the limited number of workers who displayed initiative and competence serve as reminders that adequate supervision, combined with a program of group and individual training activities, is worthwhile. But this project like most others at the time was not set up to train workers -- instead a specific work schedule had to be carried out. The training undertaken by the project was incidental and concentrated on the workers judged to be best equipped for selected tasks to start with. Those who needed instruction most in order to equip them to find employment in private business did not as a rule get it.

In order to cope with the difficulties already mentioned a system of checking completely each operation and then of sampling the work passed on by the checkers was used. Some of our ablest WPA workers were assigned to these checking tasks. The sponsor's staff did some additional spot-checking as the work proceeded, but their planning functions kept them from doing as much of this as originally planned. All of these quality checks served to increase the time and cost of the project but they made the resulting statistics conform to established rules of tolerance and saved time in the last editing operations. Some errors found were clerical in nature and others were errors in judgment. The checks uncovered work which had to be revised or done over completely, acted to prevent some errors, and gave us information on the degree of error in the different Records. The latter is to be reported in the "background memorandum" being prepared for each Record as a guide to the use of the data assembled by the project.

From an enumeration of some of the obstacles faced by a WPA project in its efforts to complete its work program, we turn to another important question: Was the project useful to the community in terms of developing and preserving the skills and morale of the WPA workers associated with it? For a limited number of workers there were positive indications of improvement in work habits and in personal appearance so as to make employment in private industry more likely. But many factors operated against such improvement for most of our WPA assignees. Among these factors were: (1) the constant emphasis on completing project work without regard to workers' specific training needs, (2) inadequate supervision, due in part to WPA's interest in keeping down administrative costs on all projects regardless of their individual needs, (3) lack of attention to workers' needs for physical rehabilitation, including some obvious defects which could have been remedied at no great cost (assuming a serious aim to prepare these workers for useful private employment), (4) lack of individual attention from qualified job training and placement experts, and (5) the stigma of being on relief and associated with the WPA in view of the opinions of many employers and neighbors.

- 13 -

VIII. PUBLICATION OF RESULTS

The end products of the Corporate Bond Study consist of: (1) a set of transcription schedules or cards for each of the six parts of the project (one schedule for each bond examined, as detailed on pages 2 - 3); (2) a set of punched tabulating cards, incorporating the data on the transcription forms and ready for use in making tabulations needed for future analytical studies, for the Record of Offerings, the Record of Issue and Extinguishment Characteristics and the Default Record; and (3) sets of tables summarizing the data in the Record of Offerings (Volume 1), and presenting simple tabulations for the Record of Issue and Extinguishment Characteristics and the Default Record (Volumes 2 and 3) in such a manner as to aid in the planning of later tables designed for analysis of particular investment problems. The number of schedules, tabulating cards, and tables which were prepared and the kind of investment data assembled by each of the six parts of the project are summarized in Section iv (pages 2 - 3) of this report.

The materials noted above will be available for use by each of the cooperating agencies.

In a letter to Mr. Brethouwer dated January 12, 1942 Mr. Jankowsky, our Project Superintendent, formally acknowledged the proper delivery to WPA of 15 copies of each of the three volumes of tables prepared by the project. In the same letter he reported the delivery to the National Bureau of Economic Research of the following supply of these tables:

255 copies of Vol. 1. Statistics of Offerings
256 copies of Vol. 2. Statistics of Issue & Extinguishment
250 copies of Vol. 3. Statistics of Defaulted Issues

IX. COST OF THE PROJECT

Considering the expenditures by the Work Projects Administration for the entire life of the project from January 17, 1939 to November 28, 1941 and those expenditures by the sponsor and cooperating agencies which were certified as contributions under WPA rules, the following figures apply:


	<u>Total</u> <u>Expenditures</u>	<u>Payroll</u>	<u>Other</u>
Work Projects Administration	\$ 423,447.06	\$ 400,573.00	\$ 22,874.06
Sponsor and Cooperating Agencies	<u>112,352.30</u>	<u>91,920.89</u>	<u>20,431.41</u>
	\$ 535,799.36	\$ 492,493.89	\$ 43,305.47

- 14 -

IX. COST OF THE PROJECT (cont'd)

Expenditures by the several sponsoring institutions prior to the official opening date of the WPA project and subsequent to its closing date are not included in these figures. Although most of the costs of the project borne by the sponsor and cooperating agencies during the period of WPA operation were reportable to and certified by WPA as eligible contributions, certain cost items were not. For the most part these unreported contributions consist of the value of the services of members of the Corporate Bond Study Committee, and members of the staffs of their agencies not specifically hired for project work, in connection with meetings of the Committee, conferences with project staff members, and the review of project plans and reports. Such items were not reportable to WPA after July 1, 1940. Expenditures for a limited amount of supplies, miscellaneous equipment and services were also excluded as contributions by the WPA. On the other hand, publications loaned to the project and returned to the loaning agency were reported at full current value until September 1, 1940. Publications loaned after that date were credited at the rate of five per cent of current value for each month of use on the project.

Costs for October and November 1941 are included in the above figures. The project was kept open during these two months for limited work only, namely, the reproduction by photo-offset and assembling of the three sets of table books. During this same period the National Bureau prepared final typewritten copies of summary tables for the Record of Offerings (Bond Census) and the Securities and Exchange Commission reproduced them (56 pages) since the WPA had agreed to reproduce only the tables submitted to it in final form by the end of September.


M. W. Brethouwer
Project Director

1942

January 24, 1942

Mr. Donaldson Brown
General Motors Corporation
Broadway at 57th St.
New York City

Dear Mr. Brown:

Thank you for your letter of January 23rd. The Federal Reserve Bank of Philadelphia is now pushing very actively for the adoption of the program which I sent you on the 10th. I am enclosing a copy of our latest report. This amplifies considerably the material which I sent you earlier.

So far as I can see, there is general agreement with the ends of the program. We have consulted a great many business men and bankers and find them enthusiastic. Washington also is enthusiastic. The real problem is to get something done. The organization of the Federal Reserve System is, of course, a little unwieldy and requires a great deal of conference and interchange of opinion before programs can be put into action. I feel that it would be unfortunate if we allowed that procedure to go on too long. It would be a great help if the Federal Reserve Bank of New York felt as strongly as the Federal Reserve Bank of Philadelphia about the need for a move such as this. The active support of the New York Bank ought to be sufficient to bring action.

Very sincerely yours,

Winfield W. Riefler

Enclosure

GENERAL MOTORS CORPORATION

BROADWAY AT 57TH STREET

NEW YORK, N. Y.

January 23, 1942

Mr. Winfield W. Riefler,
The Institute for Advanced Study,
School of Economics and Politics,
Princeton, N.J.

Dear Mr. Riefler:

I have been so busy since receipt of your letter of the 10th inst. that I have just gotten to it. I can see nothing wrong in your line of thinking and will be glad to take it up with the Federal Reserve Bank people in New York and find how they feel in regard to your suggestions. If it is held to be something that should be pushed along I will do what I can to encourage the New York Bank in getting ahead on the program.

Sincerely yours,



DONALDSON BROWN
Vice Chairman

DB:W

J. R. Bank

January 31, 1942

Mr. Donaldson Brown, Vice Chairman
General Motors Corporation
Broadway at 57th Street
New York City

Dear Mr. Brown:

Thank you very much for the copies of your correspondence with Mr. Sproul and the memorandum from Rufus Tusker. I think the whole problem is now receiving active consideration and I am hoping that it will eventuate in an intelligent solution.

I am very grateful for your interest and support.

Very sincerely yours,

Winfield M. Riefler

GENERAL MOTORS CORPORATION

BROADWAY AT 57TH STREET

NEW YORK, N. Y.

January 29, 1942

Mr. Winfield W. Riefler,
The Institute for Advanced Study,
School of Economics and Politics,
Princeton, N.J.

Dear Mr. Riefler:

I am enclosing copy of letter received from Mr. Sproul, copy of my letter to him of this date, and also copy of memorandum to me from Rufus Tucker to which I referred in my letter to Mr. Sproul.

Sincerely yours,



DONALDSON BROWN
Vice Chairman

DB:W-enc.

January 29, 1942

Mr. Allen Sproul, President,
Federal Reserve Bank of New York,
33 Liberty Street,
New York, N.Y.

Dear Mr. Sproul:

I asked Dr. Tucker to give me his views concerning the suggestions of Mr. Riefler which I had passed along to you recently. I am attaching copy of letter from Dr. Tucker, and I agree with the views which it presents. I am particularly impressed by the suggestion of a ten or fifteen year Federal bond issue, bearing interest slightly lower than ordinary Government bonds of similar maturities and providing that such special bonds be acceptable at any time after one year, at par, in payment of Federal taxes imposed on the original buyer.

I have your letter of the 27th inst. and am entirely in agreement with you as to the character of activity which should be sought in the furthering of the suggestions that emanated from Mr. Riefler and to which I understand your bank has subscribed.

I hope all of this will enjoy full consideration and that plans will be perfected towards the bringing of the suggestions into fulfillment.

Sincerely yours,

DONALDSON BROWNE
Vice Chairman

DB:W-enc.

C O P Y

FEDERAL RESERVE BANK
OF NEW YORK

January 27, 1942.

Mr. Donaldson Brown,
c/o General Motors Corporation,
1775 Broadway,
New York, N. Y.

Dear Mr. Brown:

A copy of the memorandum which you sent to me with your letter of January 23, 1942, and copies of the additional memoranda which you sent to me yesterday, had already been brought to my attention by Mr. Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia. He also sent copies of the first memorandum to the Board of Governors and to the other Federal Reserve Banks, and he discussed the subsequent memoranda at an informal meeting of the executive committee of the Federal Open Market Committee at Washington on Friday, January 23, 1942.

The idea of obtaining for Government use in financing the war such funds as may temporarily become available to business enterprises, deprived of their normal outlets for expenditure by the war program, seems to me to be a wholly sound one. It has been the subject of discussion between the Federal Open Market Committee and the Treasury for some time past, and the need for prompt action is now emphasized by the amount of the war budget, if the volume of financing to be done through the banking system is to be kept to a minimum. The Treasury is aware of this, and is trying to devise a type of security which would take this source of funds, and the Federal Reserve Banks have advised the Treasury as to what kind of security they think this should be. The executive committee of the Federal Open Market Committee also has again considered the problem during the past week, and as a part of a general outline of a future financing program, has emphasized the provision of a security which will be attractive for the investment of temporarily idle funds held by business enterprises. Its recommendations will be taken up with the Treasury immediately, and at the same time the material prepared by the Federal Reserve Bank of Philadelphia will be given to the Treasury in support of that phase of the program.

At the moment, therefore, I do not think there is anything further for the Federal Reserve Bank of New York to do in promoting the idea with the Treasury, although we may later want to reenforce our views if the Treasury appears reluctant to go ahead. I believe we should think, and we are thinking, about possible ways in which we could help to sell such securities to business enterprises in our district, if they are offered by the Treasury. My present view is that a small intensive campaign is needed rather than a big affair with large committees and a lot of publicity. The field is one to be worked over thoroughly, it seems to me, but not in a way which would confuse it in the minds of the public with the Defense Savings Bond sales campaign.

Federal Reserve Bank of New York 2. Mr. Donaldson Brown, January 27, 1942.

I should very much like to have your views on this whole matter. You are in as good a position as any of us, perhaps, to appraise the value of such a program. It also might be that business itself could support what has already been done by the Federal Reserve Banks in advocating an issue of Government securities, designed especially for the investment of temporarily idle business funds.

Yours faithfully,

Allan Sproul,
President.

P. S. I am returning herewith Mr. Riefler's letter of January 24, 1942, and its enclosures.

AS

Encs.

C O P Y

GENERAL MOTORS CORPORATION

TO Mr. Donaldson Brown

FROM Rufus S. Tucker

SUBJECT MR. RIEFLER'S MEMORANDUM ON
DEFENSE SECURITIES

January 27, 1942

The general principle underlying Mr. Riefler's recommendations is sound. It would require a good deal of careful study to estimate how much money might be made available. Perhaps also the Federal Reserve Banks would not need to do any more than to make sure that business concerns understand the situation and the types of securities that would be available for them. To a large extent the self interest of business concerns coincides in this matter with the best interest of the nation.

It is essential that business concerns acquire liquid funds to the extent necessary to meet their tax obligations. The tax-anticipation notes offered by the Federal Government are excellent for the purpose of federal taxes. Many municipalities have tax-anticipation warrants that might be useful in providing for local taxes on property. The purchase of such warrants indirectly benefits the federal treasury since it leaves available for investment in federal securities savings that would otherwise have been invested in the local tax warrants.

Similarly the repurchase of a corporation's own obligations makes it possible for the creditors to invest the proceeds in federal bonds. If these obligations bear a higher rate of interest than is available on federal bonds it would usually be wiser for the corporation to repurchase them. If the obligations mature within the next five years it would probably be not only wiser for the corporation but better for the nation to have them repurchased out of the corporation's present surplus of cash.

The object of Mr. Riefler's proposal is, as I understand it, not only to aid the government to obtain funds at the present time, but to ease the post-war reaction. Anything that relieves the pressure on business concerns caused by maturing obligations in the period following the war will help to ease the post-war reaction. Mr. Eccles has recommended that business concerns should reduce their indebtedness as much as possible.

Beyond the point of acquiring liquid assets to provide for prospective taxes and beyond the point of reducing potentially dangerous indebtedness, investment by business concerns in government obligations

Mr. Donaldson Brown

- 2 -

1/27/42

should be guided by the necessity of acquiring assets that can be liquidated when needed without loss. Long-term bonds are generally supposed to be liable to greater fluctuation in market price than short-term bills or notes. However they usually carry higher interest rates and a large number of competent observers believe that the Treasury will from necessity take steps to prevent any serious reduction in the market price of long-term federal securities. If they should be allowed to go below 90% of par most of the banks in this country would become technically insolvent. On the other hand it is likely that if the Treasury were compelled to take drastic steps to maintain the market price of long-term government bonds of the present types, pressure would be exerted on large corporations to prevent them from selling their holdings freely.

As matters now stand investments by business corporations if intended to maintain working capital and furnish an outlet for depreciation reserves must be mainly restricted to notes or bonds with a maturity not greater than five years, and should not be made if they prevent the retirement of short-term obligations of the corporation itself unless it is known that those short-term obligations can be refunded without difficulty when they mature.

Under these circumstances there might be a place for a ten or fifteen year issue bearing an interest rate a trifle lower than other government bonds of similar maturities, but acceptable at any time after one year at par in payment of federal taxes imposed on the original buyer. Such bonds would not be thrown on the market in such a way as to depress the price of government securities, but they would have a real liquidity value from the buyer's point of view, as long as the buyer has any taxable income. If not used for taxes they could be held to maturity, or sold at a loss only slightly greater than the loss on other long-term bonds because of the sacrifice of their tax-convertible feature. From the government's point of view they would cause less trouble in refunding than short-term securities, and cost a little less in interest than long-term securities, and cause less worry about their market price.

Public opinion will probably look more favorably upon a corporation that reports large holdings of government securities than upon one that reports large bank deposits.

Rufus S. Tucker

RST:G

cc: Mr. Donner

September 9, 1942

Honorable Marriner S. Eccles, Chairman
The Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

As you probably know, I have been ordered back to England in a capacity which will require my presence there more or less continuously for an indefinite period. Under the circumstances I think it is incumbent on me to offer you my resignation as Class C Director of the Federal Reserve Bank of Philadelphia.

I have enjoyed my association with the Bank greatly and wish to express my appreciation to the Board of Governors for appointing me.

Very sincerely yours,

Winfield W. Riefler

F. R. Rowland

September 23, 1942

**Mr. William C. McGreevy, Secretary
Federal Reserve Bank of Philadelphia
Philadelphia, Pennsylvania**

Dear Mr. McGreevy:

Thank you for your letter of September 22nd.

I am forwarding this on to Mr. Hiefler today.

Very sincerely yours,

Secretary

FEDERAL RESERVE BANK
OF
PHILADELPHIA

September 22, 1942

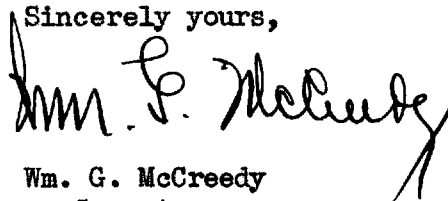
Dear Mr. Riefler,

On behalf of the Board of Directors and Officers of this Bank, it is a pleasure to inform you of the sense of satisfaction and pride derived by each of us upon learning of your assignment as special assistant to Ambassador John G. Winant, in London, with the rank of Minister.

While we realize that we shall not have the privilege of your wise counsel and association, we rejoice in the thought that your efforts will be directed to more important matters.

May we offer our congratulations and express the hope that when your task is completed you may again sit with us as an active member of the Board.

Sincerely yours,



Wm. G. McCreedy
Secretary

Mr. Winfield W. Riefler
Institute for Advanced Study
Princeton
New Jersey

FR Bank.

September 23, 1942

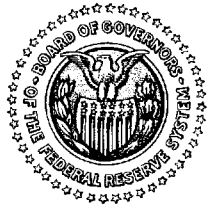
My dear Mr. Ransom:

Thank you for your letter of September 16th with regard to Mr. Riefler's resignation as Class C Director of the Federal Reserve Bank of Philadelphia. I am forwarding this letter on to him today.

Very sincerely yours,

Secretary

Mr. Ronald Ransom
Vice Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE VICE CHAIRMAN

September 16, 1942


Mr. Winfield W. Riefler,
The Institute for Advanced Study,
School of Economics and Politics,
Princeton, New Jersey.

Dear Mr. Riefler:

Your letter of September 9, 1942, to Chairman Eccles in which you tender your resignation as a Class C Director of the Federal Reserve Bank of Philadelphia has been brought to the attention of the Board.

As you know, it has been a point of special effort on the part of the Board of Governors to select as Class C Directors of the Federal Reserve Banks men who can bring to the meetings of the directors the benefit of constructive contacts with the problems with which business, industry, and agriculture are faced. It is needless to say, therefore, that the Board has accepted your resignation with sincere regret. It realizes, however, the importance of your present special assignment and that it must be given first consideration. The Board hopes that your work in this unusual field will meet with the same degree of success that has attended your efforts in the past.

Sincerely yours,



Ronald Hanson,
Vice Chairman