UNITED STATES TREASURY WAR FINANCE COMMITTEE

THIRD FEDERAL RESERVE DISTRICT

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FEDERAL RESERVE BANK OF PHILADELPHIA
925 CHESTNUT STREET
PHILADELPHIA, PA.

WAR SAVINGS STAFF | **VICTORY FUND COMMITTEE**

July 15, 1943

Marriner S. Eccles
Governor of Federal Reserve Board
Washington, D. C.

Dear Sir:

I am writing you this letter because of an article I read in the newspapers concerning a feud which existed between you and Secretary of the Treasury, Morgenthau, concerning whether or not E. Bonds should be negotiable.

First I want to inform you I am not a politician and I am not interested in this particular thing from any political angle whatsoever. But I do wish to inform you I am the father of a boy who is in the South Pacific in the Service of his Country and who will, if necessary, probably be called upon to make the supreme sacrifice for this Country of ours. While this would be sufficient explanation, I still want to go farther to state I have been the War Bond Chairman of the Greater Pittston Area since January 1, 1942, and feel very proud of the work accomplished in this area, particularly of the sale of E. Bonds on the Salary Deduction Plan.

When our Country became involved in this Global War, I immediately offered my services where I thought I could serve best. I was appointed Chairman, as I have previously mentioned, of the War Bond Board of this area. One of the things I have been constantly preaching to the public in my speeches, in every nook and corner of this area, is that the United States Savings Bond, Series E., is not negotiable, therefore the purchaser cannot suffer a loss because of conditions over which he has no control in that the Bond can always be redeemed for at least its face value within sixty days from the purchase, therefore the people would not suffer the losses similar to those taken on War Bonds purchased in World War Number One, when I witnessed men setting up booths in order to cash bonds for people who needed money and offered them from $35 to $40 for $50 Bonds, or in some instances as low as $75 for $100 Bonds. I stressed this factor of safety--that is, of the Bond not being negotiable, to the people who know little or nothing about stock market activities, and who in a great many instances have no concern relative to the collateral asset of the investment they make. I am speaking primarily of people who are working hard for their money and are believing us when

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we tell them these things concerning the safety of their investment as to the impossibility of fluctuation of maturity value.

I am the type of a person who does not want to apologize for any facts given to the people and I hope what I have said to them will never need to be altered in any respect, therefore I would like to ask a few questions concerning this disucssion of the E. Bond between you and Secretary Morgenthau.

1. What advantage will be gained by the average--and he is the fellow who owns most of the E. Bonds--in having these bonds made negotiable?

2. What protection would he have in the event it was made negotiable against speculators who are usually wolves in sheep's clothing ready for the kill after the sweat and tears of the people who purchased the E. Bonds have made a reserve for themselves possible.

3. What benefit can be gained in our financial structure for having this Series E. Bond made negotiable?

Realizing you are just as anxious as I am to safeguard the interest of the small investor, who is usually the mother and father of one or several sons in the Service, who are not only contributing their financial support to the successful prosecution of the War, but are also giving their flesh and blood that you and I may remain free men. This is a responsibility which is of the severest type which has been placed upon you and me and others in similar positions to see that these people will not have reason to believe other than that this land is one that will continue to remain free because of the accepted responsibility that the leaders of our Country so readily bear, therefore I shall appreciate very much your cooperation in giving me the information I desire and I wish to thank you now for the cooperation I will receive in this matter.

Yours respectfully,

H. A. Morris

Hastings A. Morris
War Bond Chairman,
Greater Pittston, Pa. Area.

79-81 N. Main St.
Pittston, Pa.

RECEIVED
CORRESPONDENCE
JUL 19 1943
BOARD OF GOVERNORS
of the
Federal Reserve System

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

July 23, 1943

Mr. Thurston:

Suggest something along the lines of the attached. The last paragraph is a gratuity. Just seemed like poor salesmanship for a head of a local selling organization to ignore the important features of the security and attempt to sell it by talking down another type of security that he will now be called upon to sell.

Coupon or registered are negotiable

DMG

2 1/2 % restricted 64-69 - market issue not eligible for banks for 10 years

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July 23, 1943

Hastings A. Morris

I am in complete agreement with you that Series E savings bonds should be continued as nonnegotiable securities; nor have I ever taken a position to the contrary. As a matter of fact, there has been no consideration by the Federal Reserve or, as far as I know, by the Treasury of changing any of the essential features of Series E bonds.

There is a definite place in the financing program for nonmarketable securities, since they provide the investor with a stated return for his funds that bears a relationship to the period the Treasury has the use of the funds. This completely removes all speculation and provides all investors with an equal return. There is also a need for marketable securities and large amounts of such securities will have to be sold in financing the war. Such securities are, of course, subject to market fluctuations, but we hope not as wide fluctuations as were experienced following the previous war. We have learned a few things in the interim and are in a far better position to prevent such a development. For this reason, I doubt the wisdom of talking down market issues in your effort to sell nonmarket issues -- we will have to sell both in order to raise the funds needed.

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July 28, 1943.

Mr. Hastings A. Morris,
War Bond Chairman,
Greater Pittston, Pa., Area,
79-81 North Main Street,
Pittston, Pennsylvania.

Dear Mr. Morris:

Newspaper reports, to which you refer in your letter of July 15, as to a "feud" between Secretary Morgenthau and myself over making "E" bonds negotiable are completely untrue. Neither I nor anybody else, so far as I know, has made any such suggestion in regard to the Series "E" bonds.

It is possible that these false reports arose from confusion over the fact that some of us felt that it would help to increase the sale of war bonds if the 2-1/2 per cent coupon bonds, which are negotiable, were issued in denominations as low as $100. The lowest denomination now available is $500. It was felt that many smaller investors would be attracted to the 2-1/2 per cent bond if it could be obtained in $100 denominations and that others who might have, say, $600 to $900 to invest but who now can obtain the 2-1/2's only in amounts of $500, $1000 etc., would also be interested in buying in the intermediate amounts. It was our belief that the lower denominations would tend to increase the total sales of war bonds to the public without affecting the sale of "E" bonds because there appears to be a considerable demand for marketable coupon bonds from smaller investors who are not disposed to buy the Series "E" bonds.

There was, of course, no "feud" or anything of the sort over the matter, and how any newspaper columnist or reporter could be so ignorant of the facts or so garble them is beyond my comprehension.

Marketable issues have a most important place in the war financing picture. It seems to me, therefore, that it is highly inadvisable to attempt to promote the sale of non-marketable issues by arousing fears--fears that to my mind are entirely unjustifiable to-day--that the marketable issues may be permitted to drop as did Liberty bonds after the last war. It never should have been permitted to happen then, and it will not happen again, in my judgment,

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for the Government, in particular the Reserve System, not only has ample power to maintain reasonable stability in the bond market but I am confident that it will continue to use that power after the war, as it is being used during the war, to maintain reasonable stability in the government bond market.

The reason why I am confident about this becomes more apparent when the situation is further analyzed. For instance, let us assume that marketable issues were allowed to decline substantially. Then they would become relatively such a good buy, with such an increased yield, that holders of non-marketable issues would promptly shift into the depreciated market issues. This would not only put a stop, automatically, to further sale of non-marketable issues but it would result in the cashing in of more and more of the outstanding non-market issues as the market bond yields become more and more attractive.

Where would the Government obtain the funds to redeem the non-market bonds? The funds would have to be obtained by the sale of marketable issues bearing an increasingly higher coupon rate as the market declined.

I have had some misgivings about promoting the sale of the non-marketable bonds by holding out to the public the allurement of a home, a new automobile and other things when the war ends.

Once peace is declared the public will be more than ever impatient with and eager to throw off government controls. The real danger of inflation will come then if vast amounts of stored-up buying power are permitted to flow into consumer markets before industry has been fully converted to peace-time production and before supplies of civilian goods are in balance with the accumulated purchasing power competing for such goods. To the extent that non-marketable bonds are cashed in during this period, the money to redeem them will also have to be raised by the sale of marketable issues. Unless the bond market is kept reasonably stabilized, then the Government would have to pay more and more for its market borrowings, not only to meet the redemptions of non-marketable issues but to refund the enormous volume of short-term debt as it fell due.

All of these considerations serve to emphasize why I believe the Government will continue to exercise its amply adequate powers to maintain reasonable stability in the bond market and why it seems to me that your speeches, as you describe them, making an invidious comparison between marketable and non-marketable issues give a misleading and unjustifiable impression.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b

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