

Statement of
Wm. McC. Martin, Jr., Chairman,
Board of Governors of the Federal Reserve System,
before the
House Committee on Banking and Currency,
on H. R. 9285,
February 29, 1956.

The legislation to which my testimony is directed, namely H. R. 9285, would extend for another two years the authority of the Federal Reserve System to purchase up to 5 billion dollars of special securities directly from the Treasury.

This is an operating convenience under which the borrowing is always of a strictly temporary nature and occurs primarily in tax payment periods. The authority has made it possible around such times for the Treasury to bridge temporary gaps between the Treasury's payment needs and its tax receipts, and in this way to smooth out some of the uneven flows of funds through the banking system and the money market that would otherwise result from the Treasury's operations. Avoidance, through this method of Treasury borrowing, of the sharp strains on the banking system that would otherwise arise from sudden drains on the Treasury's accounts with banks is equally as helpful to the Federal Reserve in carrying out its parallel responsibilities in the field of monetary and credit policy as it is to the Treasury in administering its fiscal responsibilities effectively.

It should be noted that the authority which this legislation would continue requires that the details of all transactions directly with the Treasury be reported in the Annual Report of the Board of Governors. I should also like to add that such borrowing, when it is outstanding, is reported separately in the weekly statement of condition of Federal Reserve Banks.

Attached to my statement is a table showing such direct purchases from the Treasury, 1942 to date. The table shows that the use of the privilege has been limited. Last year, it was possible for the Treasury to avoid such borrowing entirely. While such borrowing should be only on a temporary basis and should not be used to meet the permanent financing needs of the Treasury, situations will arise from time to time when such direct borrowing, under existing safeguards, is appropriate and helpful to the orderly functioning of the financial mechanism. The Board of Governors, accordingly, endorses the proposed legislation and recommends its enactment.

FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY
CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1942- Feb. 1956 ^{1/}

(In millions of dollars)

Date	Amount	Date	Amount
1942-- June 16	58	1943--Mar. 20	768
19	70	21	768
20	47	22	603
21*	47	23	700
22	34	24	512
23	94	25	432
Sept. 15	324	26	384
16	189	27	304
17	286	28*	304
18	76	29	104
19	53	30	40
20*	53	June 15	805
Nov. 27	139	16	659
28	329	17	350
29*	329	18	256
30	422	19	212
Dec. 1	98	20*	212
10	16	Sept. 8	11
15	145	9	126
1943--Jan. 29	115	10	243
30	202	11	246
31*	202	12*	246
Mar. 2	3	13	214
4	174	14	179
5	354	15	424
6	543	16	258
7*	543	1945--Mar. 15	4
8	591	Dec. 4	107
9	648	5	318
10	632	6	374
11	790	7	484
12	940	8	484
13	1,043	9*	484
14*	1,043	10	202
15	1,302	1949-- June 15	220
16	1,250	16	127
17	981	1950--Mar. 15	108
18	836	June 15	105
19	778		

Date	Amount
.951--June 1	100
2	100
3*	100
Dec. 17	320
.952--Jan. 22	55
23	22
Mar. 17	811
18	442
19	311
20	338
21	338
22	338
23*	338
24	189
25	170
26	14
27	123
June 16	472
17	536
18	413
19	249
20	231
21	170
22*	170
23	74
24	47
Sept. 15	103
16	257
17	221
18	242
19	134
20	134
21*	134
22	6
1953--Mar. 18	110
19	104
20	189
21	189
22*	189

Date	Amount
1953--Mar. 23	333
24	186
25	63
26	49
June 5	196
6	196
7*	196
8	374
9	491
10	451
11	358
12	506
13	506
14*	506
15	999
16	1,172
17	823
18	364
19	992
20	992
21*	992
22	908
23	608
24	296
1954--Jan. 14	22
15	169
16	169
17*	169
18	323
19	424
20	323
21	306
22	283
23	283
24*	283
25	203
26	3
Mar. 15	134
16	190

* Sunday or holiday.

✓ The power of the Federal Reserve Banks to purchase securities direct from the U. S. Treasury was restored by the Second War Powers Act, approved March 27, 1942. There were no issues during the years 1944, 1946, 1947, 1948, and 1955. Interest rate 1/4 per cent throughout.