



## TREASURY DEPARTMENT

WASHINGTON

November 30, 1938

Dear Marriner:

Enclosed are copies of the memorandum and chart, and a table showing "Treasury Bonds - Experience in Recent Periods of Price Decline," which, you will recall, are the two analyses the Secretary mentioned this morning.

Sincerely,

*George C. Haas*  
George C. Haas,  
Director of Research and Statistics.

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

Enclosures

C O P Y

November 17, 1938

Secretary Morgenthau

Mr. Haas

Subject: Importance of Non-Market Absorption of Public Debt in 1937 and 1938

1. An important element in the underlying strength of the market for Government securities since the spring of 1937 has been the fact that the open market has been called upon to absorb only a small amount of the increase in the public debt. There was actually a decrease of \$64 millions in the volume of Governments available in the open market during the first ten months of 1938, despite an increase of \$1,189 millions in the total interest-bearing public debt.

The accompanying chart brings into sharp focus the great importance during 1937 and 1938 of the non-market outlets for Government securities.

2. The sharp break in the Government bond market that occurred in the winter and spring of 1936-1937 took place after a rapid and large increase in the open market supply of Government securities. During the 18 months ended December 31, 1936, the open market supply of direct Governments increased by \$4,749 millions, and the total direct interest-bearing public debt by \$6,055 millions.

In very decided contrast are the figures for the 22 months between January 1, 1937 and October 31, 1938\*. During this period, the interest-bearing public debt rose by \$4,197 millions, but the supply of Governments in the open market increased by only \$727 millions. The remainder was absorbed as follows:

(Millions of dollars)

Social security trust funds	1,743
United States Savings bonds	892
Government Life Insurance Fund	608
Civil Service Retirement Fund	154
Postal Savings System	62
Other governmental trust funds and agencies	161
Adjusted Service bonds held by individuals and	
Postal Savings bonds (reduction)	<u>- 150</u>
Net non-market absorption	<u>3,470</u>

\* Some of the figures for October 1938, included in the totals, are preliminary.

3. The volume of Government-guaranteed obligations increased by \$350 millions during the past 22 months, all of which, together with a reduction of \$53 millions in such holdings by Government agencies and trust funds, was added to the open market supply. Of the aggregate increase of \$4,547 millions in direct and guaranteed Government obligations during the past 22 months, only \$1,130 millions was added to the open market supply.

4. As of October 31, 1938, governmental agencies and trust funds held direct and guaranteed Government obligations aggregating \$5,133 millions. In addition, the Federal Reserve banks owned \$2,564 millions of direct obligations; and some \$1,367 millions of the public debt was in the form of United States Savings bonds, \$303 millions in the form of Adjusted Service bonds issued to veterans, and \$92 millions in the form of privately held Postal Savings bonds. These figures are presented in greater detail in the table below\*:

10/31/38

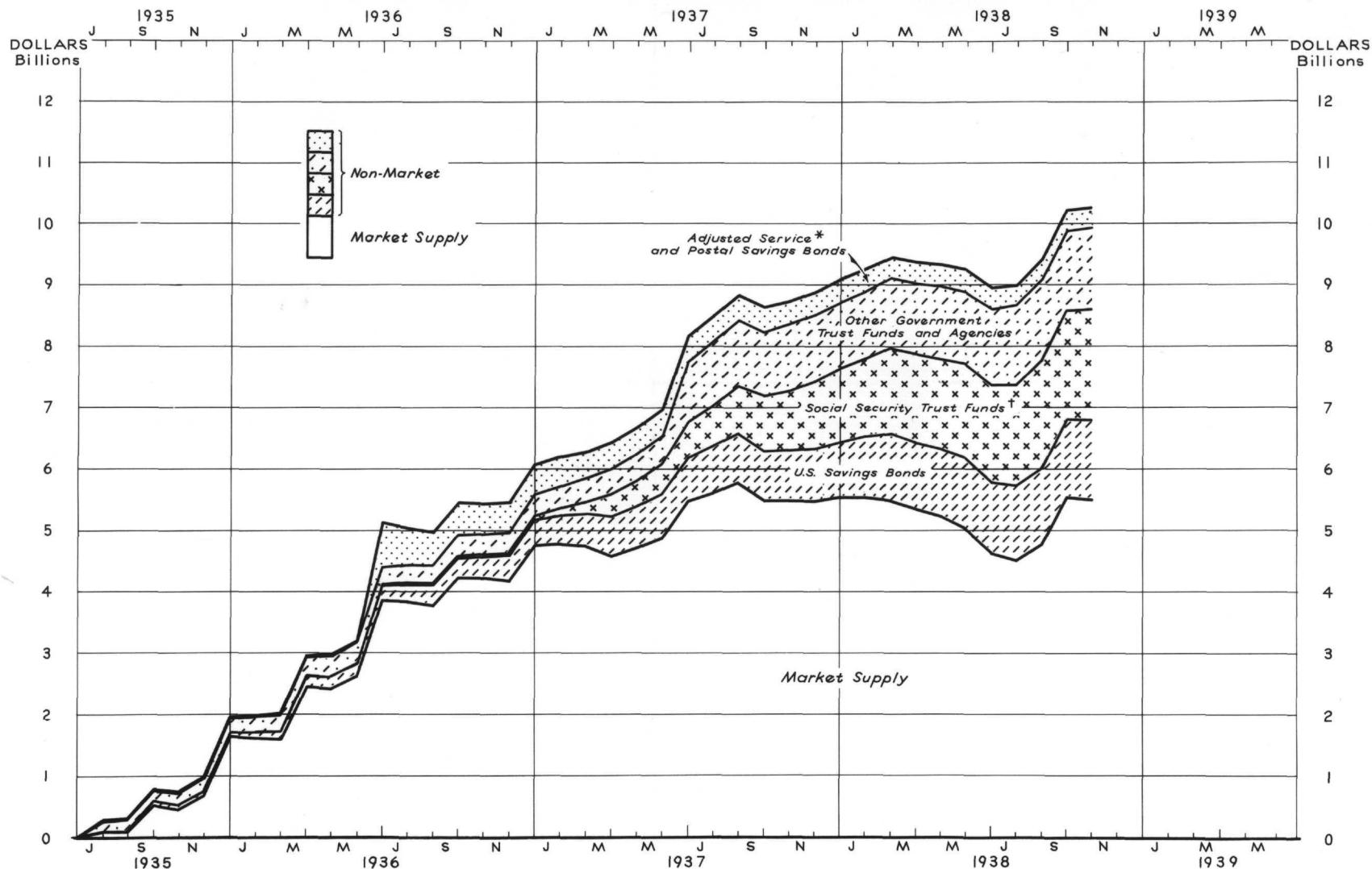
	: Direct	: Guaranteed	: Total
	(Millions of dollars)		
Social Security trust funds	1,807	--	1,807
Postal Savings System	944	167	1,111
Government Life Insurance Fund	772	--	772
Civil Service Retirement Fund	463	--	463
Federal Deposit Insurance Corp.	369	--	369
Other governmental agencies and trust funds	450	161	611
 Total - Government agencies and trust funds	4,805	328	5,133
 Federal Reserve banks	2,564	--	2,564
United States Savings bonds	1,367	--	1,367
Adjusted Service bonds held by individuals	303	--	303
Privately held Postal Savings bonds	92	--	92
 Total non-market holdings	9,131	328	9,459

\* Some of the figures for October 1938, included in the totals, are preliminary.

Attachment

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# MARKET vs. NON-MARKET ABSORPTION OF INCREASE IN INTEREST-BEARING PUBLIC DEBT SINCE JUNE 30, 1935



\* Excludes series held by Government Life Insurance Fund  
† Old Age Reserve Account, Railroad Retirement Account, and Unemployment Trust Fund

## Treasury Bonds

## Experience in Recent Periods of Price Decline

(Decimals are thirty-seconds)

Issue	Points decline			Number of months yield lost*		
	12/5/36 to : 4/9/37	8/10/37 to : 9/10/37	8/17/38 to : 9/27/38	12/5/36 to : 4/9/37	8/10/37 to : 9/10/37	8/17/38 to : 9/27/38
3-3/8% 1940-43	3.15	.23	1.07	43	7	261
3-3/8 1941-43	4.16	1.02	.30	49	9	24
3-1/4 1941	4.14	1.05	1.16	46	9	29
3-3/8 1943-47	6.00	1.19	1.23	45	10	17
3-1/4 1943-45	6.03	1.19	1.19	45	9	15
3-1/4 1944-46	6.01	1.15	1.18	42	8	13
4 1944-54	6.21	1.29	2.00	44	11	15
2-3/4 1945-47	5.18	1.19	1.20	35	8	11
2-1/2 1945	-	-	1.20	-	-	12
3-3/4 1946-56	6.19	2.05	2.14	39	11	16
3 1946-48	5.25	1.24	1.22	34	9	11
3-1/8 1946-49	5.26	1.25	1.17	34	9	10
4-1/4 1947-52	7.26	1.17	1.31	46	8	12
2-3/4 1948-51	4.23	1.28	1.28	25	9	10
3-1/8 1949-52	4.29	1.28	1.23	25	9	9
2-1/2 1949-53	4.05	1.18	1.31	21	7	10
2-1/2 1948	-	-	1.30	-	-	12
2-3/4 1951-54	3.30	1.16	1.25	19	7	9
3 1951-55	4.15	1.22	1.29	22	8	10
2-7/8 1955-60	4.15	1.15	2.02	21	6	10
2-3/4 1956-59	3.25	1.14	2.02	18	6	10
2-3/4 1958-63	-	-	1.30	-	-	9

Treasury Department, Division of Research and Statistics.

November 23, 1938

\*Note: Taking market yield at beginning of price decline, these figures give the number of months' yield lost by price decline. For example: A bond yielding 1 percent would lose 12 months' yield if it declined in price by 1 point.

December 5, 1938.

Dear George:

This is to thank you for your letter of November 30th enclosing the interesting analyses mentioned by the Secretary. I appreciate your courtesy in sending me the copy of the memorandum, chart and table.

Sincerely yours,

M. S. Eccles,  
Chairman.

Mr. George C. Haas,  
Director of Research and Statistics,  
Treasury Department,  
Washington, D. C.

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