

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MEMO Date 8/2/73 Time _____

To: Chairman Burns

From: S. H. Axilrod

Tel. No. _____ Ext. _____

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| <input type="checkbox"/> | Please call | <input type="checkbox"/> | For your approval |
| <input type="checkbox"/> | Returned your call | <input type="checkbox"/> | For your information |
| <input type="checkbox"/> | Will call again | <input type="checkbox"/> | Note and return |
| <input type="checkbox"/> | Phone me re attached | <input type="checkbox"/> | For comments and suggestions |
| <input type="checkbox"/> | See me re attached | <input type="checkbox"/> | Preparation of reply |

MESSAGE:

Out of four relevant Treasury operations, only one is found to have interfered with monetary policy, according to Fred Struble

Attached is a brief memo on Treasury financings and even keel in 1972 and a table showing the amounts and timing of financing outside the bill area for background for your testimony.

BBS1

Money Supply, 1973

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 1, 1973

To Mr. Axilrod

Subject: Even Keel Constraint in 1972

From Fred Struble

In addition to its regular sales of bills on a weekly and monthly basis, the U.S. Treasury conducted 7 financing operations of coupon issues in 1972. Only four of these operations--those involving quarterly refunding of securities--however, were of a type which traditionally would be thought to impose an even keel constraint on System activity. And in none of these four does it appear that this constraint seriously impeded a timely and effective execution of monetary policy measures.

On December 27, 1972, however, the Treasury announced that it would auction \$625 million of bonds with 20 years to mature in early January of this year, and this financing operation did inhibit the desk from exercising as much restraint on the growth of reserves as otherwise would have been desirable. It will be recalled that, as a consequence of an unacceptably rapid pickup in the growth rate of M_1 and other aggregates in December, the Committee changed the range of tolerance for the funds rate to 5-1/8--5-7/8 per cent from the previous range of 4-3/4--5-1/2 per cent at its December meeting. The desk, however, delayed introducing a degree of reserve restraint that would have pushed the funds rate to the upper end of this range until after the January 10 settlement date for the bond, even though the continued behavior of the monetary and reserve aggregates over this period warranted such action.

Attached is a summary table showing the announcement date and size of Treasury note and bond offerings in 1972 and thus far in 1973.

Treasury Financing Operations in 1972 and 1973

Date of Announcement	Type of Financing	Nature of Issue(s)	Total Amount Issued to Public
1972 Financings			
Jan. 26	Rights Exchange and Advance Refunding	4-1/4 year note and 10-year bond	4.0
March 21	Auction	3-year note	1.8
April 26	Auction	1-year note, 9-3/4 year bond	1.8
July 26	Rights Exchange and Advance Refunding	3-1/2 year note, 7-year note, 12-year bond	8.2
Oct. 5	Auction	2-year note	2.1
Oct. 25	Auction	4-year note	2.9
Dec. 14	Auction	2-year note	2.1
1973 Financings			
✓ Dec. 27, 1972	Auction	20-year bond	.6
Jan. 31	Rights Exchange	3-1/2 year note	2.5
Jan. 31	Auction	6-3/4 year note	1.0
April 25	Auction	7-year note, 25-year bond	2.7