

DIRECT PURCHASE OF TREASURY OBLIGATIONS

Proposal

Authorize Federal Reserve banks to purchase Treasury bills with maturities not exceeding 90 days directly from the Treasury.

Discussion

Authority to purchase short-term Treasury obligations directly from the Treasury would relieve the Federal Reserve banks of the necessity of paying commissions to private dealers whenever these banks buy or sell Treasury bills. It will also make it easier for the Federal Reserve banks at times to replace maturing Treasury bills when credit policy requires such replacements without being active bidders in the market, which may be a disturbing influence. By limiting this provision to short-term obligations the Board believes that it avoids any possible objection that may be made to direct dealings with the Treasury for the purpose of assisting the Treasury in its financing. The recommendation would merely increase the System's ability to function effectively in the money market.

The Federal Reserve banks had the power to purchase directly from the Treasury from the time the System was organized until 1935 and the only use that was made of this power was for the purchase of short-term Treasury obligations at quarterly financing periods for the purpose of reducing wide temporary fluctuations in reserves occurring on and around dates of income tax collection.