



TREASURY DEPARTMENT

WASHINGTON

February 11, 1937

Dear Governor Eccles:

Complying with your request at the financing meeting last Monday, there is transmitted herewith a copy of the memorandum prepared by Mr. Bell on Treasury financing. It is, of course, not necessary for me to add that this memorandum is strictly confidential.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "H. M. ...", written over the typed name of the Secretary of the Treasury.

Secretary of the Treasury

Honorable Marriner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.

Enclosure.



TREASURY DEPARTMENT

WASHINGTON

February 8, 1937

STRICTLY CONFIDENTIAL

TO THE SECRETARY:

Re: Treasury Financing

The following comments are submitted on Treasury financing for the next few months:

February 1 to June 30, 1937: After the discussions of last week on my estimates of the cash position for this period, I believe there was a feeling that the 30 million dollars a month allowed for inactive gold was insufficient and that this estimate should be increased to 50 million dollars a month. From information now available it is believed that 30 million dollars for the month of February will be just about right. I have, however, increased the other four months by 20 million dollars each. Furthermore, there was a feeling that the Treasury should not permit its balances to run as low as indicated in my estimates.

The following table shows the estimated Treasury balances at the end of each month, including estimated sales of U. S. Savings Bonds, and adding \$80,000,000 for inactive gold on the basis of (1) no new financing; (2) \$300,000,000 of new funds raised in April, in addition to the refunding of \$502,000,000 maturing notes (this can be switched to March 15th); (3) same as (2) but adding \$300,000,000 of Treasury bills to be issued between February 17th and March 24th, all to mature June 16-18 (this amount can be reduced to \$200,000,000 and stop issue on March 10th); (4) \$500,000,000 of new funds raised in April in addition to the refunding of \$502,000,000 of maturing notes (this can be switched to March 15th); (5) same as (4) but adding \$300,000,000 in Treasury bills to be issued between February 17th and March 24th, all to mature June 16-18th (this can be reduced to \$200,000,000 and stop issue on March 10th):

Suggest this

(In millions of dollars)

End of Month	Treasury balances				
	Based on new financing in the amount of				
	No new financing (1)	\$300M of Treasury notes or bonds (2)	\$300M of T/N or bonds and \$300M bills (3)	\$500M of T/N or bds. (4)	\$500M of T/N or bonds and \$300M bills (5)
February	669	669	769	669	769
March	849	849	1,149	849	1,149
April	504	804	1,104	1,004	1,304
May	239	539	839	739	1,039
June	434	734	734	934	934

It is obvious that our balances under (1) above would run too low for comfort, and even under (2) and (3), although I believe we could get through with them, would run considerably under what you have in the past contemplated. (4) or (5) is the safest course to pursue, and one under which you would feel more comfortable. It will be noted that the low points in the balances will be reached at the end of the months of February and May, but then we are, at these points, approaching heavy income tax payments and there is therefore no harm in letting the balances run down at these periods. Moreover, I feel that the time is approaching when a billion dollar working balance is too high for our needs, especially in view of the large anticipated receipts under the Social Security Act.

I would suggest, therefore, that you give consideration to (1) raising two or three hundred millions of new funds through additional issues of Treasury bills beginning February 17th and stopping either on March 10th or 24th, depending on the amount, all to mature June 16-18, for purposes of leveling off income tax payments at that time (later discussed), and (2) raising \$500,000,000 of new funds through the issuance of Treasury notes or bonds at the time and in connection with the refunding of \$502,000,000 Treasury notes maturing on April 15th. I prefer to see this major financing on April 15th rather than on March 15th for money market reasons (later discussed). While it gets away temporarily from our policy of financing on quarterly tax-payment dates, yet the new issue can be made to mature on a tax-payment date without any difficulty and would not, in my opinion,

If any of the 9-month bills are retired it will be necessary to see additional notes or bonds for cash.

interfere with any major financing on June 15, 1937, if you should later decide that it would be advisable to finance on that date. If we finance on March 15 we can expect a substantial payment in cash for the new issue, which will only add to the excess funds to be taken out of the market through income tax payments during this month.

Bonds or notes: As we approach a balanced budget, the Treasury will have to consider the problem as to whether it will want to continue to issue bonds maturing beyond ten years from the date of issue. This does not necessarily apply to the April 15 maturity, but applies only to refunding operations after we reach the point where it will not be necessary for us to raise new funds to finance the expenditure program of the Government.

During the past five or six years we have issued securities on such terms and rates as we thought the market would take, with very little regard for a debt program that would meet our Sinking Fund and investment requirements. The Treasury now has the problem immediately before it of re-arranging its debt program to meet the requirements of its Sinking Fund and investment accounts. In other words, over the next few years, certainly beginning not later than January 1, 1938, and it might be better to begin with the September 15 maturity, the Treasury should refund all maturing notes and bonds not retired through the operations of the Sinking Fund or from funds made available through investment accounts, into other securities maturing during those periods where there is now a shortage of maturities available to meet the Sinking Fund and investment requirements.

Below is a statement showing the total debt maturing or subject to call (exclusive of regular Treasury bills) in each of the fiscal years 1937 to 1950, and the net total estimated requirements of the Sinking Fund and Old Age Reserve Account:

(In millions of dollars)

Fiscal Year	Total debt maturing or callable	Sinking Fund and Old Age Reserve requirements	Excess maturities	Shortage in maturities
1937	802	614	188	-
1938	2,167	933	1,234	-
1939	2,832	1,384	1,448	-
1940	2,995	1,537	1,458	-
1941	3,287	1,425	1,862	-
1942	204	1,438	-	1,234
1943	454	1,559	-	1,105
1944	2,920	1,668	1,252	-
1945	1,037	1,646	-	609
1946	3,557	1,748	1,809	-
1947	-	1,841	-	1,841
1948	1,982	1,810	172	-
1949	-	1,889	-	1,889
1950	1,794	1,953	-	159
	24,031	21,445	9,423	6,837

See page 1942

NOTE: No allowance made in above figures for investments for account of Unemployment Trust Fund. No intelligent estimate of the payments from this fund can be made to cover a period of years, so it is assumed that for the purpose of above statement the receipts will just offset payments.

Receipts will probably exceed payments. There will also be a budgetary surplus over and above sinking fund, at least in the earlier years.

A glance at this statement shows that in some years there is too much debt maturing, while in others there is not enough. An ideal situation from the standpoint of the Treasury would be to have about \$2,000M maturing each year, about \$500M each tax-payment date. In 1942 and 1943 there are not sufficient maturities to meet even the Sinking Fund requirements at that time, while in 1947 and 1949 there are no maturities. We can, of course, purchase securities in the market for the Sinking Fund provided we do not exceed an average of par, but the operation is much less disturbing if these requirements are met through

These years could be called later.

maturing issues. This will also be true of the investment operations, where we are authorized to issue special securities to the investment accounts. In other words, to pay off maturing obligations with revenue coming in and to issue special securities to the investment accounts would represent an ideal investment arrangement.

So far as new legislation is concerned, we can assume that there will be very little change in the Sinking Fund over the next few years, but the amounts available for investment under the Social Security Act will be problematical for some time to come. The Act not only has to run the gantlet of the Supreme Court, but will be subject to political attack for the next few years. An attempt is now being made in the Congress to eliminate the Old Age Reserve Fund and substitute therefor a pay-as-you-go plan. To offset this attempt, the Social Security Board has prepared amendments to the Act which will liberalize Old Age Assistance and thereby increase the costs to the Fund amounting in 1942 to more than \$380,000,000, without any corresponding increase in taxes. The Treasury should now recognize that it can not possibly build up the reserve of 40 or 50 billion dollars contemplated under the Act, but if it can hold the present arrangement until a reserve of, say, \$5,000,000,000, or better still, \$10,000,000,000, is available, I believe it should then agree to the principle of pay-as-you-go. On the basis of the present law, the reserve would probably amount to as much as \$9,000,000,000 in twelve years, or January 1, 1949, the year when the tax rates reach their maximum. There seems to be rather general agreement that the tax rates are not out of line with the present requirements of the Act. Furthermore, there does not seem to be much doubt at the present but what the benefit requirements of the Act will be increased rather than decreased.

Effect of Treasury financing on money market: Prior to the period of huge excess reserves, it was always necessary for the Treasury to give consideration to the effect that its financing operations, including collections of revenues on quarterly income tax payment dates, would have on the money market and what steps were necessary to correct any adverse effects. The Treasury considered that it was its duty to so arrange its financing as to cause as little disturbance as possible to the market. Now that the Federal Reserve Board has taken definite action which will eventually reduce excess reserves to about five or six hundred million dollars, it becomes

important for the Treasury to again consider the effect of its major financing operations on the money market. So that you will be able to see the picture, the following table shows the estimated net amount of funds (after deducting estimated expenditures) that the Treasury will withdraw from the market on its next four income tax dates. The only large public debt maturities included for the purpose of this statement are the Treasury bills in the amount of \$300,000,000 maturing March 16, 17 and 18.

(In millions of dollars)

Heavy income tax payment dates	March	June	Sept.	Dec.
8-14	66	46	52	56
15-20	123	271	223	235
21-23	32	29	23	21
Total	221	346	298	312

*350 of
bill better
than 300.*

The full effect of the Federal Reserve Board's action will not be felt until May first. During March there will still be substantial excess reserves and the withdrawal of \$221,000,000 from the market at that time should not therefore cause any disturbance. This amount will be increased by cash payments for the new issue if major financing operations are conducted in March instead of April. In order that the Treasury may be in a position to meet in part any disturbance that may occur, I suggest we permit our investment funds for Postal Savings and Federal Deposit Insurance Corporation to accumulate, which on March 15th should amount to between 50 and 60 million dollars and which can be increased by redeeming special 2% securities, and on or about March 15 invest these funds in long-term bonds in order to put funds back in the market to offset excess receipts. If this does not entirely relieve the pressure, I suggest we permit payment by credit in War Loan account of one or more Treasury bill issues.

*not
necessary*

It is quite obvious that the Treasury can not expect to withdraw excess funds during the months of June, September and December in the net amounts above indicated, with only 500 or 600 million dollars in excess reserves, without serious effects on the money market. It seems to me, therefore, that it is important we should have Treasury bill maturities of not less than \$200,000,000 in June. It may be necessary to have maturities of bills also in September and December to meet a similar situation, although these can be discussed later in the year.

350 better

Action which the Treasury can take to offset large net withdrawals of cash from money market: The Treasury can, by some action of its own, meet almost every tight money market situation caused by its withdrawing from the money market more funds than it is putting back into the market. This can be accomplished in one or more of the following ways:

(1) Purchase outstanding Treasury notes or bonds for account of the Sinking Fund. (The Treasury can purchase notes or bonds for the Sinking Fund at prices exceeding par so long as the total premiums paid do not exceed the discount accumulated on the books as a result of purchases made for this account at prices less than par. The amount of such "discount" now amounts to about \$7,684,000. Authority is, therefore, now available to purchase up to \$768,000,000 for this account at a price of not to exceed an average of \$101. If the price is lower than or exceeds \$101, then the amount available will be correspondingly increased or reduced.)

(2) Purchase outstanding Treasury obligations for investment accounts. (About \$45,000,000 now available in cash which can be increased by redeeming special 2% securities amounting to \$200,000,000.)

(3) Pay off maturing Treasury bills in cash without any issue of bills, or pay off maturing Treasury bills in cash and permit payment of issuing Treasury bills by credit in War Loan Account.

(4) Provide beforehand for Treasury bills or other public debt obligations to mature in these heavy income tax payment periods for the specific purpose of offsetting excess receipts.

Best

(5) If there is a Treasury note or bond maturity during these periods of excess receipts, provide for refunding only part of it, paying balance in cash, thus offsetting effect on market of excess receipts. For example, in September there is a Treasury note maturity of \$817 million and there are estimated excess funds coming in of \$298 million. The Secretary would announce in his financing circular that the maturing notes would be accepted in exchange for any new issue offered up to only, say, seventy per cent of the amount of such maturing notes. This would leave thirty per cent, or \$245 million, to be paid off in cash. Such an operation as this would have to be handled with care as the maturing notes to be paid off in cash might come in faster than the excess receipts, in which case it might result in an overdraft at the Federal Reserve Banks. We could operate this in conjunction with (a) and (b) below.

(a) Deposit inactive gold with Federal Reserve Banks for a period of not to exceed seven days to cover overdraft, at the end of which the operations could be reversed. The amount deposited might be returned to the Treasury from day to day as the receipts come in. These temporary deposits would have no appreciable effect on the market.

(b) Sell through the Federal Reserve Banks as our fiscal agents, one to seven day certificates of indebtedness to large banks in money centers, redeeming the certificates as the excess receipts come in. Prior to the Banking Act of 1935, it was customary for the Treasury to run overdrafts at Federal Reserve Banks during the tax-payment periods, giving them a one-day certificate for the amount of such overdraft, the Federal Reserve Banks in turn selling to local banks participating certificates in our one-day obligation. Each day these certificates were redeemed and others issued in smaller aggregate amounts until finally wiped out by revenue receipts. *or bills*

(6) Redeposit some of the income tax receipts in War Loan accounts of special depositaries. We have authority to do this, but it is cumbersome unless confined to a relatively few banks.

(7) Purchase in the market (in effect advance redemptions) of any Government securities from surplus moneys in the general

fund. The Act of March 3, 1891, authorizes the Secretary of the Treasury to apply at any time surplus money in the Treasury not otherwise appropriated, or so much thereof as he may consider proper, to the purchase or redemption of United States bonds. The term "bonds" in this Act has been construed to mean any public debt obligations outstanding.

The foregoing could, of course, be supplemented by action of the Federal Reserve Board.

swB

TREASURY FINANCING
 (Exclusive of regular Treasury Bills)
 (In millions of dollars)

		March 15	June 15	Sept. 15	Dec. 15	Total
1937	Bills	300	-	817	-	1,619
	Notes	502 (4/15)				
1938	All notes	{ 277 (2/1) 455	618	596	-	1,946
1939	"	942	1,294	-	526	2,762
1940	Notes	1,378	N 738 B 353	-	N 727	3,196
1941	Notes	677	N 504			
	Bonds	545	B 834 (8/1)	-	N 204	2,764
1942		-	-	-	-	-
1943	All bonds	-	454	1,401 (10/15)	-	1,855
1944	"	1,519 (4/15)	-	-	1,037	2,556
1945	"	-	-	1,214	-	1,214
1946	"	489	1,854	-	-	2,343
1947	"	-	-	759 (10/15)	-	759
1948	"	1,223	-	-	-	1,223
1949	"	-	-	-	1,794	1,794
1950		-	-	-	-	-
1951	"	-	1,627	755	-	2,382
1952		-	-	-	-	-
1953		-	-	-	-	-
1954		-	-	-	-	-
1955	"	2,611	-	-	-	2,611
1956	"	-	-	982	-	982
		10,918	8,276	6,524	4,288	30,006

Accounts and Deposits
 February 6, 1937

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM


Office Correspondence

Date February 13, 1937

To Chairman Eccles

Subject: _____

From W. M. Piser

96 2 Memorandum


I am returning herewith the memorandum prepared by Mr. Bell. I have taken the liberty of adding marginal comments on a number of the important points raised in this memorandum.