November 24, 1939

Messrs. Ransom and McKee Treasury Financing

Mr. Clayton

In talking with the Chairman over long distance telephone on Wednesday evening, November 22 (the Chairman being in San Francisco), I advised him that the Treasury had called the usual meeting with the executive committee of the Open Market Committee for next Monday morning and that from press reports and other sources of information it appeared that the Treasury was definitely intending to undertake new financing. As a result of our discussion the Chairman directed me to advise you that his opinion respecting new financing is still exactly the same as it has been for some time and as set forth in the memorandum of September 1, 1939, by the executive committee which I understand was filed with the Treasury at the time of the meeting respecting the September financing. The pertinent part of this memorandum is quoted below.

> "2. That, should subsequent developments indicate the desirability of maintaining present Treasury balances, this could be brought about by offering additional bills or other short-term obligations. The committee has in mind the existing excess reserves and the prospect for their continued growth, as well as the absence of any apparent prospect that private demand for credit will materially reduce the unprecedentedly large volume of funds available for investment purposes. Under these circumstances, the committee sees no necessity for increasing the public debt at this time or for continuing the present large working balances."

At the conference on Monday Mr. Eccles would like you to advise that if he were present he would make the recommendation contained in the above.

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LC/fgr

Chairman Eccles has requested that at today's conference the Treasury be advised that, if he were present, he would make the following recommendation, which was contained in a memorandum dated September 1, 1939, signed by four Members of the Board of Governors of the Federal Reserve System, and presented to the Treasury at the conference on that date:

> "If subsequent developments indicate the desirability of maintaining Treasury balances at approximately their present levels, this could be brought about by offering additional bills or other short-term obligations."

Chairman Eccles would like it stated that the reasons for this position are fully set out in the memorandum of September 1, 1939.

Chairman Eccles further requested that it be said that he does not see any necessity for new financing at this time.

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date November 27, 1939

To Mr. Clayton

Subject: Treasury Financing

From Ronald Ransom

This will acknowledge your memorandum of November 24th on the above subject, which was addressed to Mr. McKee and me and was written after your talk with the Chairman on the long distance telephone on November 22nd.

As I explained to you this morning, the quotation from the memorandum referred to was from an early draft of the memorandum, which I understand it was then proposed should be submitted by the Executive Committee of the Open Market Committee to the Treasury. Upon inquiry of the office of the secretary of the Board, I ascertained that the memorandum of September 1, 1939, was signed by the four Members of the Board that day in Washington, and from that I extracted the quotation referred to in your memorandum as the "pertinent part" of the memorandum, and, after submitting to you this morning the statement that I proposed to read at the conference with the Treasury later in the morning as requested by Mr. Eccles, I added thereto the last paragraph. I am attaching a copy of this memorandum hereto.

At the conference this morning, I advised the Secretary that the Chairman had requested you to ask that a statement for him to this effect be presented to those in attendance at the conference at the Treasury. After reading this, the Secretary said something to the effect that he could not argue with an absent member of the Executive Committee.

I am giving you this so that you will have the record for the Chairman's file.

Given me [illegible] File Copy
Treasury meeting 9/1/39 - 11:00 a.m.
This was filed with Treasury

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

September 1, 1939

Government Financing

The members of the Board of Governors, present today, Governors Eccles, Szymczak, Davis and Draper, after carefully considering the question of the September financing in relation both to immediate and prospective requirements of the Government, as well as to the present and probable future condition of the investment market, desire to make the following suggestions:

1. It is not advisable to do any new financing at this time, because of the present uncertainty in the security markets, due to conditions abroad, and in view of the Treasury's large working balances, receipts from U. S. savings bonds, social security trust funds and the possibility of repaying the Treasury through outside financing of the $400 millions owed to it by the Reconstruction Finance Corporation, the Commodity Credit Corporation and the U. S. Housing Authority. If, however, new financing should be decided upon, it would be preferable to offer short-term rather than intermediate or long-term obligations.

2. If subsequent developments indicate the desirability of maintaining Treasury balances at approximately their present levels, this could be brought about by offering additional bills or other short-term obligations.

3. That consideration be given to the advisability of deferring until next week the question of refunding the December maturities.

Cash Financing.

On the basis of estimates received from the Treasury it is unnecessary to raise any new money at this time, thus avoiding a further increase in the public debt. Should a contingency arise at any time during the next year, however, making it difficult to refund or raise new money through the offering of intermediate or long-term securities, the situation could readily be met by issuance of bills or other short-term obligations, taking advantage of the favorable conditions in the money market. As a result of developments over the past few years, excess reserves are now nearly $5 billions and there is every reason to expect a continued growth. Bank deposits and currency are, likewise, at an all time high level. There is no prospect that either public or private demand for credit would materially reduce the unprecedentedly large volume of funds available at low interest rates for any probable amount of short-term financing.

Under these circumstances, it is considered desirable to avoid increasing the public debt for the purpose of carrying working balances greatly in excess of current requirements.

Short-Term Financing.

If it should be decided otherwise, however, it is felt that it would be preferable to offer short-term obligations and to increase the proportion of the Government's debt which is financed through such short-term obligations. This view is prompted not only by the conditions prevailing in the money market but also by longer range considerations of Government policy. Under present conditions, when the Government is pursuing a policy of deficit financing and of monetary ease, it would have the benefit of borrowing at very low rates on short-term obligations. Looking to the future, however, it may at some time become necessary to adopt a policy of restraint. Under boom conditions the problem would not be one of deficit financing but largely one of refunding Government obligations. Under certain conditions it might be advisable to apply restraint through increased interest rates. Long-term obligations, which had been issued when an opposite policy prevailed, would then undergo substantial depreciation. From the standpoint of averaging the cost of Government financing over periods of business cycles, a higher rate could well be paid in boom times when revenues would be large and deficit financing would no longer be necessary.

It is felt that the effects of wide fluctuations in interest rates which are inevitable when monetary policy changes from one of ease to one of restraint would be lessened by financing a larger proportion of the public debt in the short-term offerings at this stage.

9/1/39
F.S.
Suggested
but not used

Executive Committee

of the

Federal Open Market Committee

September 1, 1939.

GOVERNMENT FINANCING

On the basis of estimates which have been received from the Treasury, the executive committee of the Federal Open Market Committee suggests the following:

1. That it is not advisable to do any new financing or refunding at this time, because of the present uncertainty in the security markets, due to conditions abroad, and in view of the Treasury's large working balances, receipts from U. S. savings bonds, social security trust funds and the possibility of repaying the Treasury through outside financing of the $400 millions owed to it by the Reconstruction Finance Corporation, the Commodity Credit Corporation and the U. S. Housing Authority. If, however, new financing should be decided upon, it would be preferable to offer short-term rather than intermediate or long-term obligations, so that that part of the Government's debt which is financed through bond issues will not be increased. This would tend in the direction of lessening wide fluctuations in the Government bond market which react to the disadvantage of the Treasury at some times and of investors at other times.

2. That, should subsequent developments indicate the desirability of maintaining present Treasury balances, this could be brought about by offering additional bills or other short-term obligations. The committee has in mind the existing excess reserves and the prospect for their continued growth, as well as the absence of any apparent prospect that private demand for credit will materially reduce the unprecedentedly large volume of funds available for investment purposes. Under these circumstances, the committee sees no necessity for increasing the public debt at this time or for continuing the present large working balances.

This was not
filed with Treasury
but rewritten in attached
summary.