BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 27, 1947

To Chairman Eccles

From Richard A. Musgrave RAM

Subject: Bill Retirement on June 5

Mr. Heffelfinger, in Mr. Bartelt's absence, called with respect to the bill retirement on June 5.

Bill retirement during the month of May has amounted to 600 million dollars as recommended in the Executive Committee's letter on May 2. Also, in concurrence with the Committee's recommendation, there will be no retirement on May 29 of bills and 1 billion retirement of certificates on June 1. The letter also recommended 200 million retirement for June 5.

Mr. Heffelfinger feels that the June 5 retirement will not be feasible. The current level of war loan balances is 500 million dollars after adjustment for calls already announced, including a call of 266 million for May 28 and a call of 1.3 billion for June 2. An additional call of 300 million will have to be announced by Thursday for June 3, to cover expenditures in the first half of the month, assuming that the Treasury balance with the Federal Reserve will remain at its present level of 550 million.

Mr. Heffelfinger's three points against bill retirement on June 5 are:

(1) It will not be possible to raise the call above 300 million because this would reduce war loan deposits below 200 million and practically wipe out deposits at the "B" banks.

(2) While it would be possible technically to retire 100 or 200 million of bills on June 5 without increasing the call but instead drawing down the Treasury's balance with the Federal Reserve, this would serve no good purpose in terms of pressure on reserves as funds would be returned to the market through financing of expenditures to the same extent that they are withdrawn from the market on bill retirement.

(3) Also, it is desirable to keep the balance at about 500 million in view of very substantial uncertainties regarding requirements especially during the third week of the month when expenditures will be heavy due to interest payments. Also, British and French drafts on their loans may be higher than had been figured.

Mr. Heffelfinger's argument seems to make good sense. It might be just as well to pass over the June 5 bill maturity and then to resume the retirement program on June 19 when the expenditure peak of the month is passed and tax receipts will begin to flow in.

Mr. Thomas is in agreement and I understand that Mr. Rouse also takes the same view.