February 2, 1949

Mr. Robert V. Fleming
President and Chairman of the Board
The Riggs National Bank
Washington 13, D. C.

Dear Bob:

Attached is a summary of some of the points made in our conversation today and a copy of one of the tables.

Sincerely,

M. S. Eccles
Governor

Attachments
WT:rj

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UNITED STATES GOVERNMENT SECURITIES OUTSTANDING 1/

(By types of issues - par value - in billions of dollars)

Type of issue	Dec. 31 1946	Dec. 31 1948	Estimated 2/ Dec.31,1949	Estimated 2/ Dec.31,1952
Marketable securities:				
Treasury bills	17.0	12.2)	49	74
Certificates and notes	40.1	33.7)		
Bonds:				
Bank eligible 3/	69.9	62.0	55	29
Due or callable in:				
Less than 5 years	37.4	47.3	41	10
5 years and over	32.5	14.7	14	19
Bank restricted	49.6	49.6	50	36
Total marketable securities	176.7	157.5	154	139
Nonmarketable securities:				
Savings bonds	49.8	55.1	57	63
Savings notes	5.7	4.6	5	6
Special issues to Government agencies and trust funds	24.6	31.7	35	43
Other, including noninterest bearing and international securities	2.7	4.0	4	3
Total nonmarketable securities	82.8	95.4	100	115
Total, all securities	259.5	252.9	254	254

1/ Includes all securities issued or guaranteed by the U.S. Government.
2/ Assuming no further change in total public debt, an increase in nonmarketable debt with corresponding retirement of maturing marketable debt and refunding of other maturing issues with certificates or notes.
3/ Includes Treasury bonds and minor amounts of other bonds.

January 31, 1949.

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February 1, 1949

Arguments for offering by Treasury of 1-3/8 per cent 13-month or 12-month securities in exchange for maturing securities.

1. In view of necessity for continued support of 2-1/2 per cent long-term rate, money market flexibility can be obtained only through fluctuations in short-term rates. The present one-year 1-1/4 per cent rate is too low to permit any flexibility. In the absence of fluctuations in short-term interest rates, the only remaining instrument of monetary policy is the cumbersome process of varying reserve requirements.

2. With the large volume of maturing issues carrying higher coupons that must be refunded in the next few years, exchanges into 1-1/4 per cent securities would mean a substantial reduction in bank earnings.

3. Banks would be induced to seek other more profitable investments.

4. This would cause a decline in interest rates on larger securities and on loans.

5. "Playing the pattern of rates", which has already been resumed, would be further encouraged. Short securities would be sold to the Federal Reserve and, since the System does not have an adequate supply of longer-term eligible bonds to sell as an offset to these purchases, new reserves would be created.

6. The Treasury might have increased difficulties in its refunding operations.

7. Refunding into medium-term issues (5-9 years), with present supported rate structure, would establish a new low coupon rate for such issues that might have to be supported indefinitely. This would prevent any future rise in rates. Alternatively, the new issues might decline below par and become "sour".