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February 11, 1946

Honorable Fred M. Vinson,
Secretary of the Treasury,
Washington 25, D. C.

Dear Mr. Secretary:

I am enclosing herewith a memorandum containing the recommendations of the executive committee of the Federal Open Market Committee with respect to the use of a portion of the Treasury cash balance to retire securities that are due or callable through June 1946. I understand that Mr. Bartelt discussed with Mr. Rouse several days ago the handling of the securities that mature or have been called for redemption in March. After Mr. Rouse discussed this problem with the members of the executive committee, it was the view of the committee that it would be desirable to have this matter considered as part of a longer-range program to be followed over the next several months with respect to retirement of the public debt. The enclosed memorandum presents the recommendations of the executive committee.

Very truly yours,

M. S. Eccles, Chairman,
Federal Open Market Committee.

Enclosure

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SUGGESTED PROGRAM FOR MEETING TREASURY REFUNDING PROBLEMS IN THE BALANCE OF THE FISCAL YEAR 1946

In the balance of the present fiscal year, a total of 19 billion dollars of Treasury bonds, Treasury notes, and certificates become due or callable. With the Treasury balance in war loan accounts at 24 billion dollars on January 31, a level more than sufficient to meet normal cash requirements for an extended period of time, the Treasury is presented with a favorable opportunity to effect at least a temporary reduction in outstanding debt, based on the latest budget estimates. Accordingly, in meeting the refunding problem, the executive committee of the Federal Open Market Committee recommends that the Treasury

(a) use 7.6 billion dollars of the present large cash balance to redeem for cash the full amount of the notes and bonds that mature or are redeemable on March 15 and June 15, 1946, a billion of the certificates that mature on March 1, 1946, and 1.5 billion each of the certificates that mature on April 1 and June 1, 1946, and

(b) refund the remainder of maturing certificates into 7/8 per cent one-year certificates.

The suggested program has the following advantages:

(1) It would retire part of the bank credit that was created during the Victory Loan contrary to the announced Treasury policy of raising funds from nonbank investors. The redemptions for cash would substantially offset the oversubscription in the drive. According to the latest figures, two-thirds of the issues that it is herein proposed to be redeemed during the next four months are held by commercial and Federal Reserve Banks, and the proportion probably will increase as the issues approach the redemption dates.

(2) It would reduce the interest cost of the public debt at an annual rate of 123 million dollars. This saving to the Treasury would be largely at the expense of bank earnings.

(3) By redeeming the three largest certificate issues in part and refunding the smallest issue in full, the Treasury would maintain a certificate maturity in each month, and this plan would tend to distribute the amount of the maturities more evenly. By limiting redemptions to less than 2 billion dollars on any one date, the Treasury would avoid any major disturbance that might result from the fact that some banks would receive less funds from the Treasury in payment for the redeemed securities held either for its own account or by its depositors than the Treasury would withdraw from it.

Deposits subject to reserve requirements would increase by the amount of redemptions of securities held by nonbank investors, and reserve balances would decline in the first instance by the amount of redemptions of securities held by the Federal Reserve Banks. Commercial banks could readily obtain additional reserves to meet these needs through Federal Reserve open market operations, which would include, of course, purchases of certificates in amounts and at prices sufficient to maintain the refunding rate on one-year certificates at 7/8 per cent.

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