March 6, 1946

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

Dear Mr. Secretary:

I am enclosing herewith a memorandum concerning the refunding of the April 1 certificates. Mr. Bartelt phoned to Mr. Piser on March 4 regarding the opinion of the executive committee on this question. Mr. Piser took the question up with the executive committee, and it was decided to submit this memorandum to you. If we have any other views with reference to this matter before the time for announcement, we will communicate them to you.

Very truly yours,

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

Enclosure.

LMP:pb

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Federal Reserve Bank of St. Louis

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REFUNDING OF CERTIFICATES THAT MATURE ON APRIL 1

In view of the favorable developments in the budget picture since the Budget Message was issued, the executive committee of the Federal Open Market Committee recommends that the Treasury on April 1 redeem for cash at least 2.5 billion dollars of the maturing certificates, instead of the 1.5 billion indicated in our previous recommendation.

Our present estimate is that between March 1 and December 31, 1946, budget expenditures will total 34 billion dollars and receipts 32 billion, leaving a deficit of only 2 billion. We estimate that a billion dollars of this deficit will be met by net sales of nonmarketable securities, which will comprise an excess of net sales of special issues and savings bonds over net redemptions of savings notes. It, therefore, appears from these estimates that the Treasury's present large cash balances will be reduced by only about a billion dollars during the balance of this calendar year.

On February 28 the cash balances totaled 25.6 billion dollars. Unless the Treasury desires to maintain unnecessarily large balances, it should redeem for cash 18 to 20 billion dollars of marketable securities by the end of December. Excluding the March retirement of nearly 3 billion dollars of certificates, notes, and bonds, this leaves 15 to 17 billion of additional redemptions during the remainder of the calendar year. Of this total, about 5 billion dollars consists of bonds in June and notes in December, leaving 10 to 12 billion of certificates that could be retired. Since the small size of the May 1 certificate issue indicates that none of this issue should be redeemed for cash, we feel that at least 2.5 billion dollars of the April 1 issue should be retired. A further consideration in suggesting that the April cash redemption should be at least 2.5 billion dollars is the fact that an exceptionally large proportion of the 4.8 billion of this issue is held by the banking system, 2.7 billion by commercial banks and 1.3 billion by the Federal Reserve.

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