Copy for Miss Benton

June 6, 1946

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

Dear Fred:

I am pleased to give you the views of the executive committee of the Federal Open Market Committee regarding the maturing July 1 notes and the debt retirement program as requested by Mr. Bartelt.

The committee recommends that 2.5 billion dollars of the July 1 notes be redeemed for cash and that the remaining 2.4 billion be exchanged for a one year certificate. This represents some acceleration of the debt retirement program which we previously had considered, but is deemed appropriate in view of the experience we have now had with this debt retirement operation, and desirable in view of its restrictive effect upon bank credit at a time of inflationary pressure.

For your information I am enclosing figures showing a debt retirement program for 1946. This suggested program is only tentative and might have to be altered as conditions change. The table brings up to date a similar table enclosed with my letter of May 9 and shows figures for months subsequent to July. It will be noted that this proposed schedule of redemptions would retire, prior to November 1, about the amount which would have been retired by the end of the year under the earlier schedule, thus bringing the cash balance to a reasonable working level of about 3 billion dollars by the end of October. This would result in an interest saving to the Treasury as well as have a further restrictive influence on bank credit, which is particularly desirable under present inflationary conditions.

With best wishes, I am

Sincerely yours,

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

Enclosure.

CONFIDENTIAL

R&S 100-2015
June 5, 1946

REVISED ESTIMATES OF POSSIBLE DEBT RETIREMENT PROGRAM FOR CALENDAR YEAR 1946

(In millions of dollars)

Issue	Held by: Commercial banks	Held by: F. R. banks	Held by: Nonbank investors	Total outstanding	Redeemed for cash: Total	Redeemed for cash: Commercial banks	Redeemed for cash: F. R. banks	Redeemed for cash: Nonbank investors	Exchanged
Mar. 1, 7/8% certificates	2,545	953	649	4,147	1,014	636	229	149	3,133
Mar. 15, 1% notes	1,008	74	209	1,291	1,291	998	74	219	--
Mar. 15, 3 3/4% bonds	213	44	232	489	489	210	44	235	--
Apr. 1, 7/8% certificates	2,766	1,318	727	4,811	1,991	1,155	540	296	2,820
May 1, 7/8% certificates	1,038	362	179	1,579	1,579	1,038	362	179	--
June 1, 7/8% certificates	1,520	589	2,690	4,799	2,026	642	200	1,184	2,773
June 15, 3% bonds	523	100	413	1,036	1,036	523	100	413	--
June 15, 3 1/8% bonds	393	48	378	819	819	393	48	378	--
July 1, 0.90% notes	3,212	1,143	555	4,910	2,500	1,897	675	328	2,410
Aug. 1, 7/8% certificates	1,546	723	201	2,470	2,470	1,546	723	201	--
Sept. 1, 7/8% certificates	2,417	1,511	408	4,336	2,500	1,115	697	188	1,836
Oct. 1, 7/8% certificates	2,184	812	444	3,440	3,440	2,184	812	444	--
Nov. 1, 7/8% certificates	2,276	428	1,074	3,778	--	--	--	--	3,778
Dec. 1, 7/8% certificates	487	9	3,272	3,768	--	--	--	--	3,768
Dec. 15, 1 1/2% notes	2,437	275	549	1/ 3,261	--	--	--	--	1/ 3,261
Total: Mar. to June	10,006	3,488	5,477	18,971	10,245	5,595	1,597	3,053	8,726
July to Dec.	14,559	4,901	6,503	25,963	10,910	6,742	2,907	1,161	15,053
Total	24,565	8,389	11,980	44,934	21,155	12,337	4,504	4,214	23,779

Note: Ownership figures for commercial banks and nonbank investors taken from Treasury survey for Feb. 28, 1946. Federal Reserve holdings are latest available figures. Although maturing issues tend to shift to the banking system, no allowance has been made in the estimates for such shifts.

The above debt retirement program assumes that the cash balance will decline to 3 billion dollars on Oct. 31, 1946 and will be held at that approximate level.

1/ Under the above program, it would be contemplated that the December 15, 1½% rates would be exchanged into 7/8% certificates instead of being redeemed in cash in part as previously indicated.