November 12, 1946.

Honorable John W. Snyder,
Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Mr. Secretary:

Mr. Bartelt has requested the views of the Federal Open Market Committee with respect to debt retirement in December.

The Committee reiterates its recommendation of October 4 that an exchange offer be made for the entire amount of December 1 certificates and that the note issue maturing on December 15 be retired in full. Full payment of this note issue is especially desirable because it bears an interest rate of one and one-half per cent and because partial refunding into certificates would result in having three certificate issues, all maturing within 31 days.

On the basis of present budgetary estimates, the Committee also tentatively recommends (1) that the January 1 and March 1 certificate issues be exchanged in full, (2) that the March 15 note issue be fully paid off, and (3) that the certificate issue maturing February 1 be paid off to the extent that funds are available and are not needed to meet the March 15 retirement.

It is estimated under this program that following the mid-December retirement, Treasury balances may temporarily drop below a billion dollars, depending largely on the amount of the December certificates that are redeemed for cash. However, the Committee feels that war loan deposit accounts should not be drawn down below a billion dollars. If any additional funds are needed for a short period to keep the balances from falling below this figure, the funds may be borrowed from the Federal Reserve Banks on special certificates under the five billion dollar direct lending provision, which was especially authorized to meet just such a temporary need.

It is believed that under the program here proposed such borrowing from the Reserve Banks would be necessary, if at all, in a relatively small amount and for only a brief period. If Treasury needs should at any time exceed estimates and require borrowing of larger amounts for more extended periods, the Treasury always has available two additional sources of funds. It can increase the regular weekly offering of bills or the monthly issues of certificates. Accordingly, so long as the Treasury's cash receipts equal or exceed current expenditures, as presently indicated, there is no reason for maintaining large cash balances.

This flexibility makes it possible to carry smaller balances and to retire the debt more selectively and more rapidly.

Existing law authorizing Reserve Banks to purchase directly five billion dollars of obligations from the Treasury will expire on March 31, 1947. If its extension is recommended, as we believe it should be, there would be an advantage in having demonstrated its use in operation for expediting a more rapid and selective debt retirement program than would otherwise have been possible.

With kindest regards, I am

Sincerely yours,

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