

NOV 21 1946

Honorable John W. Snyder,
Secretary of the Treasury,
Washington 25, D. C.

Dear Mr. Secretary:

In a letter dated November 14, 1946, Mr. John E. Steelman, Director, Office of War Mobilization and Reconversion, has requested a report concerning statutory powers affecting the Board's operations which are dependent upon the continuance of hostilities, the emergencies, or the war.

One of the matters requiring consideration in this connection is the statutory authority for the purchase of Government securities by the Federal Reserve Banks directly from the Government, subject to a \$5,000,000,000 limitation. This authority is contained in a proviso which was added to section 14(b) of the Federal Reserve Act by Title IV of the Second War Powers Act and will expire on March 31, 1947, or such earlier date as may be designated by Congress or the President.

The Board believes that the existing authority should be made permanent. It believes that permanent authority is desirable because, among other reasons, direct buying by the Federal Reserve Banks provides the Treasury with a source to which it can turn to obtain funds in a substantial amount on little notice to meet temporary situations and contingencies, makes it possible for the Treasury to operate with a smaller cash balance than might otherwise be necessary, and provides a flexible mechanism to ease the money market in periods of heavy drain, as, for example, around income tax dates.

Accordingly, the Board expects to advise Mr. Steelman that it believes that the pertinent provisions of section 14(b) should be reenacted as permanent legislation; and the Board contemplates submitting such a proposal to Congress at the appropriate time. Before advising Mr. Steelman, however, the Board

desires to know whether you concur in its position. In view of the fact that Mr. Steelman has requested a reply from the Board by December 1, it will be appreciated if you will advise us as to your views at the earliest practicable date.

Sincerely yours,

(Signed) Marriner S. Eccles

M. S. Eccles,
Chairman.

cc - Mr. E. F. Bartelt

JOB/cws
11/19/46