

November 1, 1945.

Mr. John W. Snyder,
Director of War Mobilization and Reconversion,
Washington, D. C.

Dear Mr. Snyder:

I have been advised by Mr. Ransom of the suggestion which you made after your testimony before the Subcommittee of the House Judiciary Committee that we send you a memorandum of the reasons supporting the request that Title IV of the Second War Powers Act be extended for at least a year.

While we may at some later date ask that this authority, which was sponsored by the Board of Governors and is administered by the Federal Open Market Committee, be placed on a permanent basis, it may not be appropriate at this time to make such a request. The authority should, however, be kept in force at least during the coming year. I am advised by Dan Bell that the Treasury has recommended its extension for a period of one year.

Since Mr. Ransom is preparing to go out of town, I am sending you herewith a brief memorandum of reasons for such an extension.

Very truly yours,

M. S. Eccles,
Chairman.

CM/vl

EXTENSION OF AUTHORITY FOR FEDERAL RESERVE BANKS
TO PURCHASE GOVERNMENT SECURITIES DIRECTLY
FROM THE UNITED STATES

Title IV of the Second War Powers Act authorizes the Federal Reserve Banks to purchase directly from the Treasury obligations of the United States, with the proviso that the amount held at any one time shall not exceed five billion dollars. It should be noted that purchases and sales of Government obligations can be made by the Federal Reserve Banks either in the open market or directly from the Treasury only by direction of the Federal Open Market Committee, which consists of the members of the Board of Governors and of five representatives of the Federal Reserve Banks. The guiding principle for open market operations is stated in the law in the following language: "The time, character and volume of all such purchases and sales shall be governed with a view to accomodating commerce and business and with regard to their bearing upon the general credit situation of the country."

The authority for direct purchases (which expires on December 31, 1945) should be extended for the following reasons, among others:

1. Treasury transactions unavoidably will have to be large for some time to come, particularly in connection with the refunding of the Government debt.
2. The direct buying authority provides the Treasury with a source to which it can turn for funds in substantial amount on little notice to meet temporary situations and contingencies that might arise in the uncertain post-war period.

3. In the absence of this power for use in such cases the Treasury would be obliged to make arrangements by which its securities would be sold to dealers in the market with the assurance that they would be repurchased by the Reserve Banks. This procedure not only would be inconvenient and troublesome but would increase the expense of the operation without serving any useful purpose.

4. It is a flexible mechanism to ease the money market in periods of heavy drain, as for example around income tax dates. By borrowing from the Federal Reserve Banks and expending those funds prior to tax dates the Treasury puts funds into the market; as the taxes are received these special borrowings are reduced in amount and soon retired.

5. It avoids the necessity of having the Treasury offer Government obligations for sale on the open market at a time when the market might be uncertain and an additional public offering might add to the confusion of the market and do harm to the Government's credit and to the holders of outstanding Government obligations.

6. Such purchases have been made principally to avoid temporary declines in member bank reserves around income tax dates and to supply funds to the Treasury pending receipts from taxes or new issues of securities.

7. The Treasury can operate with a smaller cash balance than might be necessary if it were required to carry a balance sufficient to provide for all possible contingencies, thus effecting an interest saving to the Treasury.

Since this Act was approved on March 27, 1942, it has only been used occasionally and for brief periods, the attached table showing the dates and amounts of Treasury certificates so purchased by the Federal Reserve Banks.

HOLDINGS BY THE FEDERAL RESERVE BANKS OF SPECIAL SHORT-TERM
TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE
TREASURY SINCE MARCH 1942
(In millions of dollars)

Date	Amount	Date	Amount
<u>1942</u> - June 16	58	1943 - Mar. 16	1,250
19	70	17	981
20	47	18	836
22	34	19	778
23	94	20	768
Sept. 15	324	22	603
16	189	23	700
17	286	24	512
18	76	25	432
19	53	26	384
Nov. 27	139	27	304
28	329	29	104
30	422	30	40
Dec. 1	98	June 15	805
10	16	16	659
15	145	17	350
<u>1943</u> - Jan. 29	115	18	256
30	202	19	212
Mar. 2	3	Sept. 8	11
4	174	9	126
5	354	10	243
6	543	11	246
8	591	13	214
9	648	14	179
10	632	15	424
11	790	16	258
12	940	<u>1945</u> - Mar. 15	4
13	1,043		
15	1,302		