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In the program submitted to the Treasury on the 18th of April, three steps were suggested with respect to revision in the present policy relating to Treasury bills. The first two steps, imposing an interest charge on Federal Reserve notes and providing for the direct exchange of maturing bills, have since been carried out. No action has been taken with respect to the third step in the program--discontinuing the fixed buying rate and repurchase option on new Treasury bills and permitting the bill rate to find its market level relative to the certificate rate.

This third step is primarily the responsibility of the Federal Open Market Committee and the Committee is prepared to take such action immediately. The buying rate and option agreement were established to facilitate bank participation in war financing and are no longer necessary or desirable. On the contrary, their elimination will serve a useful purpose in restoring the bill as a market instrument and giving added flexibility to the Treasury's debt-management program. This action does not necessarily lead to an increase in the certificate but it does prepare the way for such an increase at the proper time.

That time seems to us to be near at hand, since present estimates of Treasury receipts, expenditures, and changes in nonmarketable debt indicate that funds will not be available to retire maturing issues during the next six months. Accordingly, these securities will have to be re-funded through offers of new issues. With continuation of the existing level of security prices and the established pattern of rates, it will be

difficult to devise a refunding program that will not result in further downward pressure on the rate structure and additional credit expansion.

If maturing issues are refunded into 7/8 per cent certificates, bank shifting into longer issues will be accentuated. If refunding is into intermediate-term issues with coupon rates fitting the rate pattern of 7/8 to 2 1/2 per cent established for war financing, the new issues will immediately sell at an excessive premium, because market yields have fallen below the previously established pattern of coupon rates. If, on the other hand, the terms of the new issues are set to fit the present market yields, a new pattern of rates below that in line with the agreed long-term rate of 2 1/2 per cent will be given official sanction. This would be directly contrary to the established policy which we have jointly pursued during the past year.

In order to avoid this dilemma, it seems to us necessary to reach a decision on the rate question before determining the September financing. It is proposed for consideration that part of the issues maturing in September and October be refunded into a somewhat higher yield certificate. In so doing, a beginning should be made toward consolidation of the 11 certificate issues now outstanding into 4 to 6 maturities. This spacing process would permit raising the certificate rate gradually while minimizing the effect of the rising rate upon prices of outstanding certificates. We shall be glad to discuss with you the details of this proposal.

As part of an integrated program we also believe that prompt action should be taken to offer a restricted G type bond along the line suggested in recent communications of the Open Market Committee. Such an issue would relieve the downward pressure on the long-term yield to the extent that it arises from demands by nonbank investors. It would also supply additional funds with which to meet maturities of bank-held issues in September and October.