

Calendar No. 68

80TH CONGRESS }
1st Session }

SENATE

} REPORT
No. 70

DIRECT PURCHASES OF GOVERNMENT SECURITIES BY FEDERAL RESERVE BANKS

MARCH 24, 1947.—Ordered to be printed

Mr. TOBEY, from the Committee on Banking and Currency, submitted
the following

R E P O R T

[To accompany H. R. 2413]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 2413) to amend the Federal Reserve Act, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PROVISIONS OF THE BILL

This bill extends until July 1, 1950, the authority granted the Federal Reserve banks under the Second War Powers Act to purchase and sell Government securities directly from or to the Treasury of the United States instead of in the open market. The aggregate amount of such direct purchases of Government securities which the 12 Federal Reserve banks are authorized to hold at any one time is limited to \$5,000,000,000, as under existing law. The Board of Governors of the Federal Reserve System is required to include in its annual report to Congress detailed information with respect to such direct purchases and sales.

GENERAL STATEMENT

This authority to purchase and sell Government securities directly from or to the Treasury was granted by title IV of the Second War Powers Act, approved March 27, 1942, which amended section 14 (b) of the Federal Reserve Act. The authority expires March 31, 1947. The Federal Reserve System had used this direct purchase authority without any limitation as to amount of holdings from the time of its creation in 1913 to 1935, when the National Banking Act of 1935 limited such purchases and sales of Government securities to open-market transactions. The existing authority to purchase Government securities directly from the Treasury facilitates the meeting by

the Treasury of temporary needs when refunding large maturities of public debt at or near tax-payment periods without undue disturbance to securities or money markets and without requiring the Treasury to maintain excessively large cash balances at such times.

Since the direct purchase authority was granted in 1942, it has been used on only 61 days, all falling at periods when the Treasury had to meet large payments, generally for interest or for redemption of maturing debt, a few days before large tax receipts were deposited. The authority was not used in 1946, because the Treasury had large cash balances resulting principally from the proceeds of the eighth war-loan drive. As used to date, it has provided the Treasury with an authorized line of credit which has been secured by special 1-day obligations on which the Government pays interest at the very nominal rate of one-quarter of 1 percent per annum. The 61 days on which this direct purchase authority has been used since 1942 are shown herewith, by amounts and dates:

[In millions of dollars]

Date	Amount	Date	Amount
1942—June 16	58	1943—Mar. 19	778
June 19	70	Mar. 20	768
June 20	47	Mar. 22	603
June 22	34	Mar. 23	700
June 23	94	Mar. 24	512
Sept. 15	324	Mar. 25	432
Sept. 16	189	Mar. 26	384
Sept. 17	285	Mar. 27	304
Sept. 18	76	Mar. 29	104
Sept. 19	53	Mar. 30	40
Nov. 27	139	June 15	805
Nov. 28	329	June 16	659
Nov. 30	422	June 17	350
Dec. 1	98	June 18	256
Dec. 10	16	June 19	212
Dec. 15	145	Sept. 8	11
1943—Jan. 29	115	Sept. 9	126
Jan. 30	202	Sept. 10	243
Mar. 2	3	Sept. 11	246
Mar. 4	174	Sept. 13	214
Mar. 5	354	Sept. 14	179
Mar. 6	543	Sept. 15	424
Mar. 8	591	Sept. 16	258
Mar. 9	648	1945—Mar. 15	4
Mar. 10	632	Dec. 4	107
Mar. 11	790	Dec. 5	318
Mar. 13	1,043	Dec. 6	374
Mar. 15	1,302	Dec. 7	484
Mar. 16	1,250	Dec. 8	484
Mar. 17	981	Dec. 10	202
Mar. 18	830		

The following is a concise statement of the basis of the legislation, presented to the committee by the Chairman of the Board of Governors of the Federal Reserve System, Mr. Marriner S. Eccles:

As I have indicated, the authority existed for more than 20 years prior to 1935. It is more needed than ever today because of the size of the debt and the refinancing operations. The fact that tax collections are also very large, currently about 40 billions a year, means that quarterly withdrawals from the banking system are going to continue to be heavy, so that it will be desirable to have the authority to help in stabilizing the money market at tax dates.

The direct purchase authority merely provides a line of available credit for use if needed. Without it, the Treasury would feel obliged to carry much larger cash balances, which means that it would have to borrow more and thereby increase the amount and cost of the public debt. In other words, having the authority, even though there may be no need to use it, enables the Treasury to carry smaller balances than would otherwise be possible and thus reduces interest charges.

For every billion dollars of Treasury balance that can be saved in this way, interest costs would be reduced by at least \$4,000,000.

The purpose for which the direct purchase authority has always been used in the past and would be used in the future is simply one of meeting temporary needs of the Treasury which, if met in other ways, would entail either needless additional costs in managing the public debt or equally needless fluctuations in the securities and money markets for brief periods. What is involved in the proposed bill is not a question of monetary theory or policy, but simply a question of efficient, economical, and businesslike management of the public debt.

The committee on Government borrowing, of the American Bankers Association, has endorsed the bill in the following statement submitted by its chairman, Mr. Robert V. Fleming, to the House Committee on Banking and Currency:

The committee on Government borrowing was created in 1942 at the request of the Secretary of the Treasury, and from time to time since its creation has been consulted by the Treasury Department in regard to fiscal policies.

At a meeting of our committee held on January 23 and 24, 1947, with the Secretary of the Treasury, consideration was given to the questions involved in the power of the Treasury to borrow directly from the Federal Reserve bank sums not in excess of \$5,000,000,000, which power expires, under existing law, on March 31, 1947. At this meeting the committee recommended the continuance of this power, by legislative enactment, for a period not to exceed 3 years.

The committee's recommendation on this subject was the result of an examination of the uses to which this power has been put since first granted to the Treasury, it having been ascertained that the use of such power has been restricted to requirements of the day-to-day convenience of the Treasury and exercised mainly prior to or near tax payment periods. In our judgment, to date the power has not been misused.

When this power is exercised as an occasional, temporary expedient in the Treasury's borrowing operations, its effect upon the national economy and the Treasury's fiscal position cannot be considered dangerous. Furthermore, the committee feels that the Treasury should hold its working balance to as low a figure as possible in order to make the maximum saving in interest in connection with the debt service, and to make retirements of the public debt as rapidly as possible. On the other hand, with the size of the existing debt, it hardly could be expected that the Treasury would reduce its working balance to a minimum unless it had the use of such power as it now enjoys under the Second War Powers Act. However, our committee feels that this power should not be made permanent, but should be extended from time to time, in order that the Congress of the United States may have an opportunity to examine to see that there has been no misuse of the power.

Therefore, in its recommendations to the Secretary of the Treasury in January, and now to your committee by means of this communication, I desire to advise that our committee is of the opinion that while it is appropriate to extend this power at this time, it should be extended for a period not to exceed 3 years.

