

MAR 24 1947

Honorable Charles W. Tobey, Chairman,  
Committee on Banking and Currency,  
United States Senate,  
Washington, D. C.

Dear Mr. Chairman:

This is in response to Mr. Hill's letter of March 13, 1947, requesting an opinion as to the merits of the bill S. 828 which has been referred to the Senate Committee on Banking and Currency. This bill would extend until July 1, 1950, the existing authority of the Federal Reserve Banks, under section 14(b) of the Federal Reserve Act, to purchase Government securities directly from the United States, subject to the limitation that the amount of such securities so purchased and held by the Federal Reserve Banks at any one time shall not exceed \$5,000,000,000.

As you will recall, legislation on this subject was recommended by the Board in a letter which I addressed to you under date of February 13, 1947. Since the existing authority of the Reserve Banks to purchase Government securities directly from the United States will, unless extended by Congress, expire on March 31, 1947, the Board hopes that the bill S. 828 will receive prompt and favorable consideration by your Committee and by the Senate.

The direct purchase of Government securities by the Reserve Banks provides the Treasury with a source to which it may turn to obtain funds in a substantial amount on little notice to meet temporary situations and contingencies. With such an emergency source of funds available, it is possible for the Treasury to operate with a smaller cash balance than might otherwise be necessary, thus resulting in a saving of interest. To obtain funds to meet such temporary requirements without direct purchases by the Reserve Banks, the Treasury would be obliged to arrange for the sale of securities to dealers in the market, with the assurance that the Federal Reserve Banks would repurchase the securities; and this not only would be inconvenient and troublesome but would also increase the expense without serving any useful purpose.

THIS COPY FOR CHAIRMAN ECCLES

Direct buying of Government securities provides a flexible method of easing the money market in periods of heavy drain, as, for example, around income-tax dates. By borrowing funds from the Federal Reserve Banks and expending them prior to tax dates, the Treasury can put the funds into the market; and, as the taxes are received, such special borrowings are reduced and soon retired. Moreover, with a huge public debt, much of it in short maturities, frequent periodic refunding operations are necessary. Thus, more than \$10,000,000,000 of Treasury bills, certificates and notes fall due in March, some \$8,000,000,000 in April, and so on through the year. This situation will hold true for years to come - as long as we have a debt of this magnitude. To have an uncertain or periodically tightened money market in such circumstances would be both impracticable and needless.

The power to make direct purchases is one generally possessed by central banks; and, until 1935, there was no limitation upon direct purchases by the Federal Reserve Banks. Under both the existing law and that prior to 1935, the authority of the Reserve Banks to purchase securities directly from the United States has been used only occasionally and for brief periods. It has, however, proved to be a useful and convenient mechanism to facilitate Treasury operations and to effect temporary adjustments in the money market.

For the information of your Committee, there is enclosed a table which shows the number of occasions on which the direct purchase authority, granted temporarily by the Second War Powers Act of 1942, has been used since that time.

Very truly yours,

(Signed) M. S. Eccles

M. S. Eccles,  
Chairman.

Enclosure

HHH:jc  
3-19-47

March 19, 1947

HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES  
BY THE FEDERAL RESERVE BANKS, 1942-TO DATE

(In millions of dollars)

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
1942 - June 16	58	1943 - Mar. 18	836
19	70	19	778
20	47	20	768
22	34	22	603
23	94	23	700
		24	512
Sept. 15	324	25	432
16	189	26	384
17	286	27	304
18	76	29	104
19	53	30	40
Nov. 27	139	June 15	805
28	329	16	659
30	422	17	350
		18	256
Dec. 1	98	19	212
10	16		
15	145	Sept. 8	11
		9	126
1943 - Jan. 29	115	10	243
30	202	11	246
		13	214
Mar. 2	3	14	179
4	174	15	424
5	354	16	258
6	543		
8	591	1945 - Mar. 15	4
9	648		
10	632	Dec. 4	107
11	790	5	318
13	1,043	6	374
15	1,302	7	484
16	1,250	8	484
17	981	10	202

(None since December 1945)