EFFECTS ON COMMERCIAL BANK DEPOSITS OF THE TREASURY DEBT RETIREMENT PROGRAM 1946-47

At the beginning of 1946, the Treasury held deposits of 25.5 billion dollars at commercial banks and at Federal Reserve Banks. These balances were largely accumulated through the sale of securities in the Victory Loan Drive. With demobilization in full swing, these funds were in excess of the Treasury's operating needs and made possible the initiation of a large debt retirement program, thus reversing the processes of wartime finance.

Over the course of the year 1946, the Treasury retired over 17 billion dollars of bank debt. This represented a cancellation of deposits of an equal amount. Since the deposits had been created by bank purchases of Government securities and were not a part of the money supply in the hands of business and individuals, their use for retirement of bank-held debt had little, if any, over-all anti-inflationary effect.

The Treasury also retired for cash in 1946 about 6 billion dollars of Government securities held by nonbank investors. This repayment transferred Government deposits from war loan accounts to accounts of private holders, and in consequence total deposits held by individuals, businesses and State and local governments were increased accordingly.

During the first ten months of 1947 the Treasury found it possible to retire an additional 6 billion dollars of bank-held Government securities. The funds for this retirement were obtained almost entirely out of current budget surpluses. This reduced privately-held bank deposits by 6 billion dollars. Largely because of private bank credit expansion during this period but also gold acquisitions and some bank purchases of Government securities in the market, this decrease in deposits was more than offset and total deposits held by individuals, businesses and State and local governments increased by a further 4 billion dollars.

During this ten-months period the Treasury also retired about 3 billion dollars of Government securities held by nonbank investors. The funds used for these retirements were obtained largely out of sales of nonmarketable issues in excess of redemptions. These retirements represented turnover of existing deposits and left the total volume of privately-held deposits substantially unchanged.

Attached is a table showing the sources and uses of Treasury funds, together with retirement operations, for 1946 and the first ten months of 1947.

Attachment

SOURCES AND USES OF TREASURY FUNDS
(In billions of dollars)

Sources of Treasury funds	Calendar year 1946	Jan.-Oct. 1947	Total
Excess of cash income over cash outgo	.2	5.5	5.7
Net cash sales of nonmarketable debt	--	3.9	3.9
Decrease in stabilization fund balances	--	1.8	1.8
Reduction in accumulated Treasury funds	23.7	--	23.7
Total	23.9	11.2	35.1
Uses of Treasury funds			
Disbursement to Monetary Fund	--	1.2	1.2
Increase in General Fund balance	--	.6	.6
Net cash retirement of nonmarketable debt	.6	--	.6
Cash retirement of marketable debt	23.4	9.4	32.8
Total	23.9	11.2	35.1
Retirement Program			
Bank-held securities	17.5	5.8	23.3
Financed by:			
Cash surplus	0.2	5.5	5.7
Draft on balances	17.3	--	17.3
Sale of nonmarketable securities	--	0.3	0.3
Non-bank-held securities	5.9	3.6	9.5
Financed by:			
Draft on balances	5.9	--	5.9
Sale of nonmarketable securities	--	3.6	3.6