Federal Reserve Bank of New York

Offering of $400,000,000 (or thereabouts)

United States of America Treasury Certificates of Indebtedness
Dated and bearing Interest from March 15, 1921

Series TS 2—1921, 5½ Per cent. Due September 15, 1921

Series TM—1922, 5¾ Per cent. Due March 15, 1922

To all Banks, Trust Companies, Savings Banks, Bankers, Investment Dealers and Principal Corporations in the Second Federal Reserve District:

The Secretary of the Treasury, under the authority of the act approved September 24, 1917, as amended, offers for subscription, at par and accrued interest, through the Federal Reserve Banks, Treasury certificates of indebtedness, in two series, both dated and bearing interest from March 15, 1921, the certificates of Series TS 2—1921, being payable on September 15, 1921 with interest at the rate of five and one-half per cent. per annum semiannually, and the certificates of Series TM—1922, being payable on March 15, 1922, and bearing interest at the rate of five and three-quarters per cent. per annum payable semiannually.

Applications will be received at the Federal Reserve Banks.

Bearer certificates will be issued in denominations of $500, $1,000, $5,000, $10,000, and $100,000. *The certificates of Series TS 2—1921 will have one interest coupon attached, payable September 15, 1921, and the certificates of Series TM—1922 two interest coupons attached payable September 15, 1921 and March 15, 1922.*

The certificates of both said series shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (*a*) estate or inheritance taxes, and (*b*) graduated additional income taxes, commonly known as surtaxes, and excess profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates authorized by said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate $5,000, owned by any individual, partnership, association or corporation, shall be exempt from the taxes provided for in clause (*b*) above.

Certificates of these series will be accepted at par, with an adjustment of accrued interest, during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury, *in payment of income and profits taxes payable at the maturity of the certificates, respectively.* The certificates of these series do not bear the circulation privilege.

The right is reserved to reject any subscription and to allot less than the amount of certificates of either or both series applied for and to close the subscriptions as to either or both series at any time without notice. Payment at par and accrued interest for certificates allotted must be made on or before March 15, 1921, or on later allotment. After allotment and upon payment Federal Reserve Banks may issue interim receipts pending delivery of the definitive certificates. Any qualified depositary will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district. *Treasury certificates of indebtedness of Series TM—1921, Series TM 2—1921, Series TM 3—1921, and Series TM 4—1921, all maturing March 15, 1921, and of Series E—1921, maturing April 15, 1921, with any unmatured interest coupons attached, will be accepted at par, with an adjustment of accrued interest, in payment for any certificates of the series TS 2—1921 or TM—1922 now offered which shall be subscribed for and allotted.*

As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotment in full in the order of the receipt of applications up to amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts.

Yours very truly,

BENJ. STRONG,
Governor.

New York, March 9, 1921

(*Reference to letter of the Secretary of the Treasury, next page*)

Reprint of Letter from A. W. Mellon, Secretary of the Treasury, to the Presidents of Incorporated Banks and Trust Companies on the Current 5½ and 5¾ Per Cent. Issues of Treasury Certificates of Indebtedness.

Washington, D. C., March 9, 1921.

Dear Sir: At the outset of my administration of the Treasury I am addressing this letter to the banking institutions of the country to inform them of the state of the Nation's finances, the probable requirements of the Treasury for the coming months, and its financial plans for the immediate future.

About $500,000,000 of Treasury certificates of indebtedness mature on March 15, 1921, and about $118,000,000 additional on April 15, 1921. On March 15, 1921 there will become payable the semiannual interest on the Third Liberty Loan amounting to about $75,000,000. The Treasury must also make large payments under the recent legislation authorizing partial payments on account of the railroad guaranty, which may amount to as much as $200,000,000 during the course of the next month. In order to meet these heavy requirements and at the same time provide for the current expenses of the Government, the Treasury relies in large part upon the quarterly installment of income and profits taxes due March 15, 1921. Advance payments of March taxes have been up to expectations, and though it is impossible to forecast the result with certainty, the Treasury has good reason to hope that income and profits tax payments during March will about balance the March 15 maturities of principal and interest. To provide for its further requirements, the Treasury has decided, on the basis of the best available estimates, to offer Treasury certificates of indebtedness in the amount of $400,000,000 or thereabouts, in two series, both dated March 15, 1921, one series designated TS 2-1921, bearing 5½ per cent. interest, maturing September 15, 1921, and the other series designated TM-1922, bearing 5¾ per cent. interest and maturing March 15, 1922. Applications for Treasury certificates of these series will be received in regular course through the several Federal Reserve Banks, as fiscal agents of the United States, from which full particulars concerning the offering may be obtained. Treasury certificates of the series which mature on March 15, 1921, and April 15, 1921, will be accepted at par with an adjustment of accrued interest in payment for any certificates of the two series now offered which may be subscribed for and allotted.

On the basis of the Treasury daily statements, the current operations of the Government during the first eight months of the fiscal year through February 28, 1921 show a net current surplus (excess of ordinary receipts over ordinary disbursements) amounting to $186,115,505.53. This showing is particularly encouraging in view of the fact that during these eight months there have been extraordinarily heavy expenditures but only two quarterly payments of income and profits taxes. Ordinary receipts up to February 28, 1921 have amounted to $3,433,411,141.36, as against ordinary disbursements during the same period of $3,247,295,635.83 (or at the rate of almost 5 billions a year). Of these disbursements about $750,000,000 have represented expenditures of the War Department, about $450,000,000 expenditures of the Navy Department, about $475,000,000 payments to the railroads under the Transportation Act, 1920, and about $550,000,000 payments of interest on the public debt—a total of about $2,225,000,000 under these four main headings. In the four months which remain of the fiscal year there will be two further quarterly payments of income and profits taxes, both based on the business of the calendar year 1920. While it is impossible to estimate these tax payments with accuracy and the prospects are that expenditures will continue heavy for some time to come, the Treasury expects that the operations of the first three quarters of the year, through March 31, 1921, as well as the completed year's operation, will show some surplus of receipts over expenditures.

The gross debt of the Government on February 28, 1921, amounted to $24,051,684,728.28, on the basis of Treasury daily statements, while on the same date the floating debt (loan and tax certificates unmatured) amounted to $2,484,032,000. These figures contrast with a gross debt on December 31, 1920 of $23,982,224,168.16 and a floating debt on the same date of $2,300,656,000. As a result of the Treasury's operations on March

15, 1921, these increases in gross debt and floating debt (which are to be expected in the odd months when no quarterly income and profits tax payments are made) should be largely offset and possibly overcome. The progress to be made during the balance of the current year in the retirement of gross debt and floating debt will depend, of course, upon the extent of the demands made upon the Treasury and the volume of its receipts from taxes and salvage. This progress is likely to be thereby limited by reason of the heavy railroad payments to be expected during the next two or three months.

These figures as to the public debt and the current operations of the Treasury show that the country's finances are sound, but that the situation calls for the utmost economy. The Nation cannot afford extravagance, and so far as possible it must avoid entering upon new fields of expenditures. The heavy requirements of the Government on account of necessary expenditures including interest and sinking fund on the public debt, and the maturity of 7½ billions of short-dated debt within the next two years or thereabouts make it imperative that the greatest care and economy be exercised in matters affecting Government expenditures.

The people generally must become more interested in saving the Government's money than in spending it. A thorough going national budget system must be established, and the Government's expenses brought into relation to its income. The period which has elapsed since the last quarterly installment of income and profits taxes has been marked by important developments in the market for Treasury certificates of indebtedness. On January 15, 1921, the Treasury successfully sold an offering of three-months 5½ per cent. certificates and nine-months 5¾ per cent. certificates. On February 15, 1921, an offering of five-months 5½ per cent. certificates was likewise promptly oversubscribed. Treasury certificates of indebtedness now enjoy a broad and active market, on a straight investment basis and all issues now outstanding are quoted in the open market either at par or at a premium. The last three months have also been marked by still further distribution of Treasury certificates among investors and a reduction in holdings of Treasury certificates by banks. The reporting member banks of the Federal Reserve System (about 825 banks in leading cities, which are believed to control about 40 per cent. of the commercial bank resources of the country and to have subscribed in the first instance for about 75 percent. of the Treasury certificates of indebtedness now outstanding) held on February 25, 1921, only about $235,000,000 of Treasury certificates as compared with reported holdings on November 26, 1920, of about $313,000,000 and on February 27, 1920, of about $673,000,000. On March 4, 1921, the Federal Reserve Board reported that there were pledged with the Federal Reserve Banks only about $110,000,000 of Treasury certificates to secure loans and discounts, or less than 5 per cent. of the aggregate amount of loan and tax certificates then outstanding. The figures strikingly show the success of the efforts which have been made for the past year or more to secure distribution of Treasury certificates among real investors, and to keep them out of the banks. The two series of six months and twelve months certificates now offered are both acceptable in payment of income and profits taxes, and should prove peculiarly attractive to taxpayers as well as to persons having idle funds awaiting investment.

I know that I can count, like my predecessors in office, on your hearty co-operation in the distribution and sale of Treasury certificates, and hope that, as in the past, you will subscribe liberally in the first instance for the certificates and use your best efforts to resell them to investors.

Cordially yours,

A. W. MELLON,

Secretary of the Treasury.