FEDERAL RESERVE BANK OF NEW YORK
Fiscal Agent of the United States

[Circular No. **3696** May 3, 1951]

Offering of $1,100,000,000 of 91-Day Treasury Bills

Dated May 10, 1951 **Maturing August 9, 1951**

To all Incorporated Banks and Trust Companies in the Second Federal Reserve District and Others Concerned:

Following is the text of a notice published today:

FOR RELEASE, MORNING NEWSPAPERS, Thursday, May 3, 1951.

TREASURY DEPARTMENT
Washington

The Secretary of the Treasury, by this public notice, invites tenders for $1,100,000,000, or thereabouts, of 91-day Treasury bills, for cash and in exchange for Treasury bills maturing May 10, 1951, to be issued on a discount basis under competitive and non-competitive bidding as hereinafter provided. The bills of this series will be dated May 10, 1951, and will mature August 9, 1951, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p.m., Eastern Daylight Saving time, Monday, May 7, 1951. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, non-competitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 10, 1951, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 10, 1951. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under the Internal Revenue Code, or laws amendatory or supplementary thereto. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a)(1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

This Bank will receive tenders up to **2 p.m., Eastern Daylight Saving time,** Monday, May 7, 1951, at the Securities Department of its Head Office and at its Buffalo Branch. Please use the form on the reverse side of this circular to submit a tender, and return it in an envelope marked "Tender for Treasury Bills." *Payment for the Treasury bills cannot be made by credit through the Treasury Tax and Loan Account. Settlement must be made in cash or other immediately available funds or in maturing Treasury bills.*

ALLAN SPROUL, *President.*

Results of last offering of Treasury bills (91-day bills dated May 3, 1951, maturing August 2, 1951)

Total applied for..... $2,176,555,000

Total accepted .... $1,101,893,000 (includes $112,178,000 entered on a non-competitive basis and accepted in full at the average price shown below)

Average price...... 99.619 Equivalent rate of discount approx. 1.508% per annum

Range of accepted competitive bids: (Excepting one tender of $1,000,000)

High .... 99.625 Equivalent rate of discount approx. 1.484% per annum

Low .... 99.617 Equivalent rate of discount approx. 1.515% per annum

(5 percent of the amount bid for at the low price was accepted)

Federal Reserve District	*Total Applied for*	*Total Accepted*
Boston	$ 40,124,000	$ 38,224,000
New York	1,600,637,000	691,440,000
Philadelphia	39,095,000	20,010,000
Cleveland	56,412,000	41,767,000
Richmond	12,900,000	9,400,000
Atlanta	14,509,000	14,509,000
Chicago	228,491,000	145,481,000
St. Louis	15,601,000	9,326,000
Minneapolis	2,926,000	2,876,000
Kansas City	39,901,000	36,901,000
Dallas	56,789,000	47,289,000
San Francisco	69,170,000	44,670,000
TOTAL	$2,176,555,000	$1,101,893,000

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

(OVER)

☛ Tenders will be received up to 2 p.m., Eastern Daylight Saving time, Monday, May 7, 1951.

IMPORTANT—If you desire to bid on a *competitive* basis, fill in rate per 100 and maturity value in paragraph headed "Competitive Bid." If you desire to bid on a *non-competitive* basis, fill in only the maturity value in paragraph headed "Non-competitive Bid." *DO NOT fill in both paragraphs on one form. A separate tender must be used for each bid.*

No. . . . .

TENDER FOR 91-DAY TREASURY BILLS

Dated May 10, 1951 **Maturing August 9, 1951**

To Federal Reserve Bank of New York,
Fiscal Agent of the United States.

Dated at . . . .

. . . . 1951

COMPETITIVE BID

Pursuant to the provisions of Treasury Department Circular No. 418, as amended, and to the provisions of the public notice on May 3, 1951, as issued by the Secretary of the Treasury, the undersigned offers

. . . .* for a total amount of
(Rate per 100)

$. . . . . (maturity value) of the Treasury bills therein described, or for any less amount that may be awarded, settlement therefor to be made at your Bank, on the date stated in the public notice, as indicated below:

☐ By surrender of maturing Treasury bills amounting to . . . . $________________

☐ By cash or other immediately available funds

* *Price must be expressed on the basis of 100, with not more than three decimal places, for example, 99.925.*

NON-COMPETITIVE BID

Pursuant to the provisions of Treasury Department Circular No. 418, as amended, and to the provisions of the public notice on May 3, 1951, as issued by the Secretary of the Treasury, the undersigned offers a non-competitive tender

for a total amount of $. . . . .
(Not to exceed $200,000)

(maturity value) of the Treasury bills therein described, at the average price (in three decimals) of accepted competitive bids, settlement therefor to be made at your Bank, on the date stated in the public notice, as indicated below:

☐ By surrender of maturing Treasury bills amounting to . . . . $________________

☐ By cash or other immediately available funds

The Treasury bills for which tender is hereby made are to be dated May 10, 1951, and are to mature on August 9, 1951.

This tender will be inserted in special envelope marked "Tender for Treasury Bills."

Name of Bidder. . . . .
(Please print)

By. . . . ., ...
(Official signature required) (Title)

Street Address . . . .

. . . .
(City, Town or Village, P. O. No., and State)

If this tender is submitted by a bank for the account of a customer, indicate the customer's name on line below:

. . . .
(Name of Customer) (City, Town or Village, P. O. No., and State)

Use a separate tender for each customer's bid.

IMPORTANT INSTRUCTIONS:

1. No tender for less than $1,000 will be considered, and each tender must be for an even multiple of $1,000 (maturity value). A separate tender must be executed for each bid.

2. If the person making the tender is a corporation, the tender should be signed by an officer of the corporation authorized to make the tender, and the signing of the tender by an officer of the corporation will be construed as a representation by him that he has been so authorized. If the tender is made by a partnership, it should be signed by a member of the firm, who should sign in the form ". . . . ., a copartnership, by . . . ., a member of the firm."

3. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

4. If the language of this tender is changed in any respect, which, in the opinion of the Secretary of the Treasury, is material, the tender may be disregarded.

Payment by credit through Treasury Tax and Loan Account will not be permitted.

TEN TB—1088-a

(OVER)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

at 3696

FEDERAL RESERVE BANK
OF NEW YORK

New York 45, N. Y.,
May 1, 1951.

To Member Banks in the
Second Federal Reserve District:

As directors of the Federal Reserve Bank of New York, elected by you, we have had in mind repeating the experiment of last September, when we tried to give you a report on our stewardship which went somewhat beyond the regularly published reports of the bank. The period of public discussion of Treasury and Federal Reserve policies since our first letter might have seemed a good time for such a second attempt. Our position as directors of one of the Federal Reserve Banks made it appropriate, however, for us to refrain from discussing these matters in this way while the Treasury and the Federal Reserve System were adjusting their differing views as to the means and methods of fighting inflation in the area of debt management and credit policy. And now that these differences have been resolved in the accord announced March 4th, the implementation of the agreement is more a matter of coordinated action than of exposition by us. We do feel that it may be helpful, however, to review with you the broad range of credit policy problems which now face us, in the light of the new circumstances growing out of the Treasury-Federal Reserve agreement.

The agreement has encouraged us to believe that we in the Federal Reserve System are in a better position than before to discharge our responsibilities and to combat inflationary pressures. Since the outbreak of the war in Korea, last June, a number of actions have been taken by the Federal Reserve System to restrain bank credit expansion. In individual credit areas where inflationary pressures were greatest, or promised to become troublesome, selective controls were imposed or made more severe. They had as their purpose restricting the further growth of consumer instalment credit, real estate mortgage credit, and credit to finance the purchase of securities. In the field of general credit control, where the object of action is to make access to reserve funds (which banks must have to support a further expansion of loans and investments) more difficult and costly, the Reserve Banks increased their discount rates and, during January, the Board of Governors increased the reserve requirements of all member banks of the System.

As bank credit continued to expand at an unprecedented rate during most of this period, however, it became clearer that further steps should be taken to restrict the acquisition of additional reserve funds by member banks. This could be accomplished only by limiting the sale of Government securities, by these banks or by other investors, to the Federal Reserve Banks. Unless the

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Federal Reserve System could regain some initiative in its open market operations, other measures to restrain credit expansion were severely handicapped if not nullified.

The essence of the agreement between the Federal Reserve System and the Treasury is the restoration of the necessary degree of initiative to the System in its open market operations, with which is combined the continuing responsibility of maintaining conditions in the Government security market which will enable the Treasury to meet the Government's refunding requirements, and its requirements for new money if needed. These objectives are now being worked out on a cooperative basis, both in terms of credit policy and of debt management. The Federal Reserve System continues, of course, to recognize and discharge its responsibility for the maintenance of orderly conditions in the Government security market.

Limitation of the supply of reserve funds through restored initiative in open market purchases of Government securities by the Federal Reserve Banks may do more than give effect to official policies; it may also give a necessary boost to the Program for Voluntary Credit Restraint. As you know, under the Defense Production Act of 1950, committees of commercial bankers, investment bankers, and life insurance representatives—with participation of Federal Reserve officials—have been appointed and are starting to function throughout the country, assisting lenders of various kinds in their determination to avoid making non-essential loans, and to hold less essential loans to a minimum. So long as reserve funds were readily and freely available at the Reserve Banks, and so long as competition for new business within and between financial groups was so keen, the odds against the success of a program of voluntary credit restraint were great. Now that the availability of reserve funds is under some control again, and now that measures of voluntary credit restraint have legal sanction, this undertaking of the financial community can be a useful supplement to the general control measures of the monetary authorities.

For the year as a whole the goal should be no increase in the aggregate volume of credit extended by all banks of the country. A decrease in the use of credit for ordinary personal and business purposes should, if possible, offset the increased use of credit for defense purposes. Any substantial increase in total bank credit would, in the end, only create more dollars to compete for a limited supply of goods. We do not predict scarcities or shortages, but there is no getting around the fact that the civilian economy will have less real goods and services at its disposal over the next year or two than it would have if so much of our productive capacity did not have to be channeled into defense requirements.

It may be, of course, that the crest of the wave of bank credit expansion has passed, for the moment. In so far as this expansion was based on swollen inventories, signs are not lacking that liquidation has begun, at least in some lines, and this should be reflected in a decline in the volume of bank credit. We cannot rely on this, however, nor would it wholly solve our problem. Another potential, if not actual, inflationary force has appeared which also complicates a program of general credit restraint. This is the problem to which the national Voluntary Credit Restraint Committee recently turned its attention in its Bulletin No. 2 urging restriction of business capital expenditures, where such expenditures will not tend to increase output essential to the defense effort.*

The direct demand for bank credit, growing out of business capital expenditures, may not be too great. To the extent that such expenditures are not financed out of internal resources, they pre-

* This bulletin was sent to you on April 20, 1951 by the Second District Commercial Banking Voluntary Credit Restraint Committee.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

sumably will be financed by insurance companies, and in the capital market. But if expenditures for capital investment exceed the total of corporate and individual savings during the remainder of the year and if, in addition, substantial amounts of such savings have been committed in advance for confirmed projects, the indirect effects on credit policy could be disturbing. They would be particularly disturbing if institutional holders of Government securities should seek to sell a large volume of such securities in a short time, in order to obtain funds with which to take up past commitments or to finance new commitments for capital expenditures. Coming at a time when the Treasury will be in the market with substantial refunding offerings, and may be faced with the need for new borrowing, such selling might disrupt the Government securities market. Yet for the Federal Reserve Banks to purchase these securities could put reserve funds into the banking system when general credit policy pointed in the opposite direction. It is our hope that the counsel of the national Voluntary Credit Restraint Committee, to curtail non-essential or postponable capital expenditures, will be followed by both borrowers and lenders, as well as by business concerns which do not need to borrow. As the Committee points out in its Bulletin No. 2, there is undoubtedly a substantial amount of anticipated capital expenditures which could be postponed without detriment to the defense effort, and in the interest of reducing inflationary pressures and conserving labor and materials. These expenditures include, for example, those to improve the competitive position of individual producers of non-essential goods, to expand and modernize facilities for distribution or service which is not defense supporting, and to expand and modernize the manufacture of consumer goods not related to the defense effort.

There is one other aspect of the fight against inflation which we would like to stress. There will be a growing need, as defense requirements bite into the supply of goods available for civilian consumption, to promote saving by the public and to channel these savings into economically desirable uses. It seems clear that incomes of individuals will increase, in the aggregate, during the rest of the year and that, despite actual and prospective increases in taxes, the volume of purchasing power thus becoming available will be in excess of the supply of goods and services currently being produced which can be shared by the civilian economy. If this gap is not closed by a wise savings program, attempts to spend available income (or accumulated liquid reserves) will renew and enlarge the upward pressure on prices without being able to bring forth an increase in production.

It is not possible to make a hard and fast listing of desirable uses of savings which will fit all individual situations, and which will meet all the fears of those who are concerned about the future purchasing power of funds presently saved. Nevertheless, in these critical times when the financial needs of defense are so great, there are compelling national reasons for placing a considerable volume of these savings in United States Savings Bonds. There are two kinds of financial hazard which particularly confront the individual planning a savings program under present conditions. One is the general hazard of a decline in the purchasing power of the dollar, which will affect the future purchasing power of money currently saved. No sure defense against this hazard is available to the individual, although our whole anti-inflation program, including restraint of credit expansion and promotion of savings, is directed toward this end. The second hazard is individual misfortune involving financial demands beyond the capacity of current income. Money invested in United States Savings Bonds will help to meet such contingencies; money spent will not. In our opinion the banks of the district can continue to perform a constructive service by promoting the sale of Savings Bonds, and by making known their views as to how the savings program can be improved and enlarged, so that it will better meet the challenge of the times.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

This letter has been confined to an expression of our views on certain financial aspects of the anti-inflation program. It is still true as it always has been, of course, that this is only part of the problem. There must be action in other areas. Taxes sufficient to pay the increased cost of Government must be levied, and levied so that they will impinge on spending rather than saving. Nonessential Government expenditures at all levels of Government should be eliminated. Direct control of those forces in our economy which raise costs without compensating increases in productivity, must be made effective. Increased production must be a continuing goal. All of these things are essential to a broad and consistent effort to combat inflation. Credit policy can complement action on this whole front and, in turn, will be supported by such action. We deem it highly significant that credit policy has now been freed sufficiently from past inhibitions to enable it to do this job.

Sincerely yours,

JOHN C. TRAPHAGEN, *Class A director*
Elected by banks in Group 1

BURR P. CLEVELAND, *Class A director*
MARION B. FOLSOM, *Class B director*
Elected by banks in Group 2

ROGER B. PRESCOTT, *Class A director*
JAY E. CRANE, *Class B director*
Elected by banks in Group 3

Robert T. Stevens, *Chairman,* William I. Myers, *Deputy Chairman,* and Robert P. Patterson, Class C directors appointed by the Board of Governors of the Federal Reserve System, are wholly in accord with the views expressed above by the elected directors of the Federal Reserve Bank of New York.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis