FEDERAL RESERVE BANK OF NEW YORK

Fiscal Agent of the United States

[Circular No. 4747
June 4, 1959]

OFFERING OF TWO SERIES OF TREASURY BILLS

$1,200,000,000 of 91-Day Bills, Additional Amount, Series Dated March 12, 1959, Due Sept. 10, 1959
(To Be Issued June 11, 1959)
$500,000,000 of 182-Day Bills, Dated June 11, 1959, Due December 10, 1959

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

Following is the text of a notice issued by the Treasury Department, released for publication in morning newspapers, Thursday, June 4, 1959:

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing June 11, 1959, in the amount of $1,701,228,000, as follows:

91-day bills (to maturity date) to be issued June 11, 1959, in the amount of $1,200,000,000, or thereabouts, representing an additional amount of bills dated March 12, 1959, and to mature September 10, 1959, originally issued in the amount of $400,299,000, the additional and original bills to be freely interchangeable.

182-day bills, for $500,000,000, or thereabouts, to be dated June 11, 1959, and to mature December 10, 1959.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their 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, one-thirty o'clock p.m., Eastern Daylight Saving time, Monday, June 8, 1959. 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 Treasury Department 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, noncompetitive tenders for $200,000 or less for the additional bills dated March 12, 1959, (91 days remaining until maturity date on September 10, 1959) and noncompetitive tenders for $100,000 or less for the 182-day bills without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 11, 1959, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 11, 1959. 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, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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, Revised, 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 for both series up to 1:30 p.m., Eastern Daylight Saving time, Monday, June 8, 1959, at the Securities Department of its Head Office and at its Buffalo Branch. Tender forms for the respective series are enclosed. Please use the appropriate forms to submit tenders and return them in an envelope marked "Tender for Treasury Bills." Tenders may be submitted by telegraph, subject to written confirmation; they may not be submitted by telephone. *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.*

Results of the last offering of Treasury bills (91-day bills to be issued June 4, 1959, representing an additional amount of bills dated March 5, 1959, and maturing September 3, 1959; and 182-day bills dated June 4, 1959, maturing December 3, 1959) are shown on the reverse side of this circular.

ALFRED HAYES,
President.

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RESULTS OF LAST OFFERING OF TREASURY BILLS (TWO SERIES ISSUED JUNE 4, 1959)

Range of Accepted Competitive Bids

	91-Day Treasury Bills Maturing September 3, 1959		182-Day Treasury Bills Maturing December 3, 1959	
	Price	*Approx. equiv. annual rate*	*Price*	*Approx. equiv. annual rate*
High	99.210[a]	3.125%	98.254[b]	3.454%
Low	99.200	3.165%	98.232	3.497%
Average	99.204	3.149%	98.236	3.489%

[a] Excepting three tenders totaling $240,000.

[b] Excepting three tenders totaling $600,000.

(25 percent of the amount of 91-day bills bid for at the low price was accepted.)

(70 percent of the amount of 182-day bills bid for at the low price was accepted.)

Total Tenders Applied for and Accepted (By Federal Reserve Districts)

	91-Day Treasury Bills Maturing September 3, 1959		182-Day Treasury Bills Maturing December 3, 1959	
District	*Applied for*	*Accepted*	*Applied for*	*Accepted*
Boston	$ 22,561,000	$ 11,961,000	$ 11,934,000	$ 1,934,000
New York	1,550,941,000	773,066,000	805,959,000	348,666,000
Philadelphia	25,844,000	9,869,000	5,641,000	591,000
Cleveland	26,410,000	21,410,000	17,986,000	7,661,000
Richmond	7,911,000	7,911,000	1,041,000	541,000
Atlanta	21,718,000	20,293,000	1,939,000	1,514,000
Chicago	187,865,000	120,615,000	66,133,000	10,662,000
St. Louis	13,064,000	12,564,000	2,443,000	2,243,000
Minneapolis	9,506,000	7,956,000	3,115,000	1,475,000
Kansas City	34,525,000	29,275,000	4,946,000	3,168,000
Dallas	12,823,000	12,823,000	2,434,000	2,434,000
San Francisco	86,066,000	72,603,000	23,201,000	19,355,000
Totals	$1,999,234,000	$1,100,346,000[c]	$946,772,000	$400,244,000[d]

[c] Includes $177,536,000 noncompetitive tenders accepted at the average price of 99.204.

[d] Includes $17,495,000 noncompetitive tenders accepted at the average price of 98.236.

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Cir 4747

FEDERAL RESERVE BANK OF NEW YORK

June 8, 1959.

To All Member Banks of the Second Federal Reserve District:

For your information, there is printed below the text of a message on public debt management sent today by the President of the United States to the Congress.

Additional copies of this letter will be furnished upon request.

ALFRED HAYES,
President.

THE WHITE HOUSE

To the Congress of the United States:

Successful management of the debt of the Federal Government is one of the most important foundation stones of the sound financial structure of our nation.

The public debt must be managed so as to safeguard the public credit. It must be managed in a way that is consistent with economic growth and stability. It must also be managed as economically as possible in terms of interest costs. The achievement of these goals is complicated today by several factors, despite the fact that United States Government securities are the safest investment in the world. Our growing prosperity, combined with Government programs to support mortgages and other types of debt obligations, has strengthened the position of these mortgage and other investments with which the Treasury must compete when it sells Government securities.

In addition, the rapid growth in borrowing demands of corporations, individuals, and State and local governments (which issue tax-exempt obligations) tends to diminish the amount of funds available for investment in direct Federal Government securities. Furthermore, the market for all fixed dollar obligations has been affected by a recent preference among some buyers for common stocks.

The achievement of a fiscal position that allows our revenues to cover our expenditures—as well as to produce some surplus for debt retirement—will improve substantially the environment in which debt management operates. Greater flexibility of debt management action is required, however, under present-day conditions if a reasonable schedule of maturities is to be maintained and the safeguards against inflation strengthened.

I am, therefore, asking the Secretary of the Treasury to transmit to the Congress today proposed legislation designed to improve significantly the Government's ability to manage its debt in the best interest of the nation.

The legislation provides principally for:

(1) Removal of the present 3.26 percent interest rate ceiling on savings bonds. This, together with other changes, will reinvigorate the savings bond program.

(2) Removal of the present 4¼ percent interest rate ceiling on new issues of Treasury bonds. The present ceiling seriously restricts Treasury debt management and is inconsistent with the flexibility which the Secretary of the Treasury has on rates paid on shorter-term borrowing.

(3) An increase in the regular public debt limit from $283 billion to $288 billion, and an increase in the temporary limit from $288 billion to $295 billion. These increases are essential to the orderly and prudent conduct of the financial operations of the Government, even with expenditures covered by revenues in the fiscal year 1960, as the budget proposes.

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Savings bonds

Removal of the present 3.26 percent maximum limit on savings bond interest, together with certain other changes, will permit the Treasury to improve the terms of savings bonds. This will strengthen the contribution of the program both to habits of thrift throughout the nation and to a better structure of the public debt.

The Treasury is proposing the following revisions in the savings bond program, subject to approval of enabling legislation: a 3¾ percent interest rate to maturity for all Series E and H savings bonds sold on or after June 1, 1959; an improved interest rate on all Series E and H bonds outstanding and continued to be held; and improved extension terms for outstanding Series E bonds when they mature.

4¼ percent maximum interest rate on new bond issues

There is no statutory maximum on the interest rate which can be paid by the Treasury for marketable borrowing of 5 years or less (bills, certificates, and notes). The Secretary of the Treasury should have similar flexibility with regard to Treasury bonds (which run 5 years or more to maturity).

The Treasury always tries to borrow as economically as it can, consistent with its other debt management objectives. But in our democracy no man can be compelled to lend to the Government on terms he would not voluntarily accept. Therefore, when the Government borrows, it can do so successfully only at realistic rates of interest that are determined by the supply and demand for securities, as reflected in the prices and yields of outstanding issues established competitively in the Government securities market.

I am aware of the fact that many proposals have been made which are designed to produce lower interest rates. However, any debt management device which would seek to interfere with the natural interaction of the competitive forces of our free economy and produce unnatural reductions in interest rates would not only breach the fundamental principles of the free market, but under current conditions could be drastically inflationary. The additional cost to the Government alone from increased prices of the goods and services it must buy might far exceed any interest saving. The ultimate harm to the entire nation of such a price rise could be incalculable.

Market yields on a number of Treasury bonds are already above 4¼ percent. With one exception all bonds which have 5 years or more to run to maturity have market yields above 4 percent. The Treasury recently has done substantial short-term borrowing. But it must avoid undue shortening of the public debt and therefore should continue to sell intermediate and longer-term bonds whenever market conditions permit. It should not be prohibited from doing so by the existence of an artificial ceiling which under today's conditions makes it virtually impossible to sell bonds in the competitive market.

Debt limit

The Treasury's current estimates, assuming that revenues cover expenditures for the fiscal year 1960 as a whole, indicate the need for an increase in the regular (or permanent) statutory public debt limit from $283 billion to $288 billion. The $288 billion figure is $13 billion above the permanent limit of $275 billion in effect at the beginning of the fiscal year 1959. This $13 billion increase is approximately equal to the Federal Government deficit during the current fiscal year, as estimated in the budget submitted in January.

The Treasury expects the debt to approximate $285 billion on June 30, 1959, leaving about $3 billion leeway under the proposed $288 billion regular ceiling—a leeway which is essential to protect the Government in case of unforeseen emergencies and to provide necessary flexibility in debt management operations.

Even with budget receipts covering expenditures in the next fiscal year the debt is expected to rise considerably above $288 billion next fall and winter as the Treasury borrows to cover seasonal needs. This seasonal borrowing can then be repaid before the end of the fiscal year. I am asking, therefore, for a temporary increase of $7 billion in the public debt limit beyond the $288 billion permanent ceiling to cover those seasonal borrowing needs. This temporary limit would expire June 30, 1960, and can be reviewed prior to that time.

Certain other technical proposals to improve the management of the public debt are also included in the proposed legislation.

The enactment of this program is essential to sound conduct of the Government's financial affairs. It will contribute significantly to the Treasury's ability to do the best possible job in the management of the public debt. I urge, therefore, that the Congress give prompt consideration to this request.

There is another matter to which I wish to call your attention, quite apart from the legislative program discussed above. When I submitted my budget to you in January interest costs on the public debt for the fiscal year 1960 were estimated at $8 billion. The increase in interest rates that has taken place since that estimate was made is now expected to add about half a billion dollars to this figure.

At the same time, however, I am informed that, because of the strength of economic recovery and growth beyond our earlier expectations, our revenue estimates for fiscal year 1960 will be sufficient to offset the increased interest cost on the public debt.

DWIGHT D. EISENHOWER

THE WHITE HOUSE,
June 8, 1959.

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