

TREASURY DEPARTMENT

Fiscal Assistant Secretary

TO:

MISS KELLY

Mr. Bartelt wondered if
the Secretary wanted this returned
to him.

HSVassar 10/4/51

Mr. Bartelt

MR. SNYDER'S OFFICE TO --

Mr. Bartelt

Mr. Bray

Mr. Clark

Mr. Foley

Mr. Graham

~~Mr. Hass~~

Mr. Lynch

Mr. Martin

Mr. Parsons

Mr. Siler

* * * * *

Mr. Ball

Mr. Banning

Mrs. Barker

Mr. Baughman

Mr. Burdette

Mr. Carlock

Mrs. Clark

Miss Cullen

Mr. Delano

Mr. Dietrich

Mr. Ecker-Racz

Mr. Graves

Mr. Hall

Mr. Hard

Mr. Heffelfinger

Mr. W. Johnson

Mr. Kilby

Mr. Kirby

Mr. W. Lynch

Mr. Maxwell

Mr. McDonald

Mrs. Ross

THE SECRETARY OF THE TREASURY

~~Mr. Bartlett~~ | ~~EF~~
~~Mr. Hays~~

This for your info.
Arrived after
decision was made

9/25/57 JWS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

September 28, 1951

CONFIDENTIAL

Honorable John W. Snyder,
Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

As I advised you by telephone on Tuesday last, it was the preference of the majority of the members of the executive committee that the October 15 and November 1 notes be refunded into a 1-7/8 percent certificate maturing on August 15, 1952. It was also the unanimous view of the committee that at least for the time being there should be no further increase in the weekly offering of Treasury bills.

With the thought that you would like to have a summary of the committee's thinking, there is attached a copy of a memorandum giving the background for the committee's preference with respect to the refunding and the alternative proposals which it considered.

Sincerely yours,

Wm. McC. Martin, Jr.
Wm. McC. Martin, Jr.

Attachment

cc: Mr. Bartelt

*File
S. B. 53*

DISCUSSION OF CURRENT ECONOMIC SITUATION AND
TREASURY REFUNDING BY EXECUTIVE COMMITTEE,
FEDERAL OPEN MARKET COMMITTEE, SEPTEMBER 25, 1951

Problems of Treasury finance for the remainder of 1951 and early 1952 were considered by the Executive Committee in the light of current and prospective economic developments with particular reference to credit demands. The recent economic situation has been marked by relative stability of prices and activity at a high level. Inflationary pressures seem to be in abeyance, notwithstanding continued increases in the rate of defense expenditures. In recent months civilian buying has not been increasing, although the level of income has continued to expand. From last spring until early September there was little credit expansion and the money market was generally in balance.

During the next few months banking and credit developments will be affected by three important factors, the influence of which is already being felt: (1) a Treasury cash deficit of 3 to 4 billion dollars; (2) seasonal demands for bank loans, plus a probable further expansion in borrowing for defense activities of a magnitude that is difficult to predict; and (3) seasonal currency demands. These developments will result in a growth in the supply of funds in the hands of businesses and individuals that may exceed that of the period of growing inflation a year ago. Although a substantial volume of these funds will represent temporary holdings to be paid out in taxes next year, the over-all expansion will be in excess of current and long-term needs and, in the absence of effective restraining action, could become an inflationary factor. The prospect for continued expansion in defense production and

the resulting drain upon available supplies of goods and manpower would also add to the threat of inflation.

In view of the recent abatement of inflationary pressures, the present situation does not call for adoption of any new and stronger measures of credit restraint. The continuing threat that inflationary pressures may reassert themselves in the near future, however, makes it undesirable to create more than a minimum volume of reserve funds during the next few weeks. During September the money market has been relatively tight, reflecting the beginning of the seasonal credit demands, as well as tax and other payments around the middle of the month. This tightness has continued, even though the Federal Reserve purchased securities and added substantial amounts to the volume of reserves. While the prospective currency and credit demands will increase the need for reserve funds during the remainder of this year, only small additional amounts may need to be provided through Federal Reserve purchases of securities. The prospects are that a large part of these needs will be supplied through a seasonal increase in float at the Reserve Banks, and in view of the largely temporary nature of the needs, much of the remainder might properly be met by member bank borrowing.

Under these circumstances, the question is how the Treasury could handle its refunding and new financing with a minimum of increase in bank credit. This would require the offering of securities that would attract nonbank funds. It is clear that at present prices there is substantially no demand for medium or long-term securities. The principal potential source of demand for securities lies in business funds, which require a high degree of liquidity.

The Executive Committee at this time concerned itself principally with the question of refunding Treasury securities maturing on October 15 and November 1. The problem of raising new funds was discussed but will be given more thorough consideration by the full Open Market Committee at its meeting on October 4 and any recommendations on that aspect will be presented after that meeting.

The task of refunding the 11.2 billion dollars of notes maturing October 15 and November 1, of which 3.8 billion dollars are held outside of the Federal Reserve System, will be conditioned by the current state of the market for Government securities. This market is at the present in a state of congestion, reflecting the increase in the recent offerings of bills, accompanying a shortage of bank funds due to growing credit demands and a temporary shortage of corporate funds because of tax and other obligations in September. This situation has necessitated some purchases of bills and certificates on the part of the Federal Reserve in order to prevent a rise in money rates during the period of Treasury refunding. It seems likely that pressures of this nature may continue at least during the early part of October if not longer.

Under these circumstances, the Committee agreed that short-term securities should be offered in exchange for the maturing issues. In view of the imminence of the need for new borrowing by the Treasury, the Committee also agreed that the two issues should be refunded simultaneously with the settlement date on October 15.

With respect to particular issues to be offered in exchange for the maturing securities, the Committee gave consideration to four alternative proposals.

(1) The preference of the majority of the Committee is to offer to holders of the maturing securities an additional issue of 1-7/8 per cent certificates to be dated October 15 and to mature August 15, 1952. This preference is based upon the desire of the Committee, in order to facilitate Federal Reserve operations, to reduce the number of Treasury issues maturing in the latter part of next year. Since it is likely that that period may be characterized next year, as it has been this year, by active private credit demands, together with new borrowing by the Treasury, reduction in the number and amount of maturities in that period would simplify the problem of money market administration and possibly also the task of Treasury financing. In view of the fact that there is a small maturity on August 15, resulting from the September financing, the proposed issue would accomplish the purpose of reducing the number of maturities. For this reason, the proposal is considered by the Committee to be consistent with the major objective of widely-spaced maturities which underlies its previous recommendation of quarterly issues of certificates.

(2) An alternative proposal is to offer to holders of the maturing issues a 1-7/8 per cent certificate to be dated October 15 and to mature October 1, 1952. This type of offering would fit into the quarterly pattern which the Committee has heretofore recommended and would not be out of line with the present market, although it might require some support under existing circumstances, as might also the shorter issue proposed.

(3) and (4) The Committee also considered the proposal that a somewhat longer-term issue be offered in exchange for the October 15 and November 1 maturities. The Committee would not suggest such an exchange

by itself, but the Treasury might wish to consider such an offering along with and as an option to one of the short-term securities mentioned.

This type of optional offering would present an opportunity to reduce the volume of the debt maturing in 1952 and to test the market for issues maturing beyond a year. If such an option is given the Committee would suggest a 2 per cent note maturing March 15, 1953.