

AMENDMENT OF SECTION 14(b) OF THE FEDERAL RESERVE ACT

HEARING BEFORE SUBCOMMITTEE NO. 1 OF THE COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES EIGHTY-SEVENTH CONGRESS SECOND SESSION ON H.R. 11654

A BILL TO AMEND SECTION 14(b) OF THE FEDERAL RESERVE
ACT, AS AMENDED, TO EXTEND FOR 2 YEARS THE AUTHORITY
OF FEDERAL RESERVE BANKS TO PURCHASE U.S. OBLIGA-
TIONS DIRECTLY FROM THE TREASURY

JUNE 19, 1962

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Committee on Banking and Currency



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AMENDMENT OF SECTION 14(b) OF THE FEDERAL RESERVE ACT

TUESDAY, JUNE 19, 1962

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE No. 1,
Washington, D.C.

The subcommittee met at 10 a.m., Hon. Brent Spence, chairman, presiding.

Present: Mr. Spence (chairman), and Messrs. Barrett, Reuss, Moorhead, Stephens, Mrs. Dwyer, and Mr. Scranton.

The CHAIRMAN. The committee will be in order.

We are here to consider H.R. 11654, with reference to the purchase by the Federal Reserve banks of obligations directly from the Treasury. (H.R. 11654 is as follows:)

[H.R. 11654, 87th Cong., 2d sess.]

A BILL To amend section 14(b) of the Federal Reserve Act, as amended, to extend for two years the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 14(b) of the Federal Reserve Act, as amended (12 U.S.C. 355) is amended by striking out "July 1, 1962" and inserting in lieu thereof "July 1, 1964", and by striking out "June 30, 1962" and inserting in lieu thereof "June 30, 1964".

The CHAIRMAN. Mr. Roosa, Under Secretary for Monetary Affairs for the Treasury Department, is our witness.

You may proceed as you please, Mr. Roosa. If you have a written statement, you may conclude it before you are interrogated.

STATEMENT OF HON. ROBERT V. ROOSA, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

Mr. ROOSA. Thank you, Mr. Chairman, it is a pleasure for me to be here to review the reasons why we are asking for renewal of this authority.

This bill would extend through June 30, 1964, the existing authority of the Federal Reserve banks to purchase directly from the Treasury Government debt obligations up to a limit of \$5 billion outstanding at any one time. The measure is also supported by the Board of Governors of the Federal Reserve System.

Under the Federal Reserve Act of 1913, the Federal Reserve banks were given unlimited authority to purchase Government securities either directly from the Treasury or in the open market. The Banking Act of 1935 revised this provision and required that all Federal Re-

serve purchases be made in the open market. Then in 1942 the Federal Reserve banks were again given authority to buy securities directly from the Treasury subject to the restriction that the outstanding amount of such debt should not exceed \$5 billion. This authority was originally granted through 1944, and has been extended from time to time since then. The current authority expires on June 30, 1962.

Although the direct purchase authority is employed only infrequently, and has not been used at all since 1958, its continuation is essential because it provides an important backstop for Treasury cash and debt management operations.

Economical management of the Treasury's cash position allows the public debt to be kept to a minimum, thereby saving interest costs to the Government. For this reason, total Treasury cash balances are typically maintained at a level averaging only about one-half of 1 month's expenditures. Since receipts and outlays cannot always be predicted with certainty, occasions naturally arise when Treasury balances decline unexpectedly. The availability of immediate direct access to Federal Reserve credit provides a precautionary reserve for such unforeseen contingencies that would otherwise have to be provided by considerably higher operating balances.

Furthermore, at times it is highly useful to allow Treasury balances to fall to levels considerably below the average. For example, for the several days immediately preceding a taxpayment date, it may be desirable to allow the Treasury's balances to fall to exceptionally low levels prior to the large inflow of cash over the tax date. Direct access to Federal Reserve credit provides the margin of safety necessary if such a practice is to be followed. Otherwise it would sometimes be necessary for the Treasury to float additional security issues in the market before taxpayment dates even though the funds would be needed for only a few days, and then only as a cushion against unforeseen cash drains.

Similarly, other occasions may arise when the availability of this limited line of credit at the Federal Reserve permits desirable flexibility in cash and debt management. For example, there may be occasions when Treasury financing operations ought to be postponed for a short period because of market disturbances. The possibility of direct access to Federal Reserve credit increases the Treasury's elbowroom in such a situation by making it feasible to let balances run down to abnormally low levels for a short time.

In general, then, the availability of a limited amount of direct credit from the Federal Reserve is important, because it makes it possible for the Treasury to operate with a lower cash balance than would otherwise be necessary and to "ride through" low points in the balance with confidence that, if needed, funds are available on a temporary basis.

Additionally, the direct purchase authority provides a source of funds for temporary financing in the event of a national emergency. In all of the planning we do on the financial side in the event of a national emergency or nuclear attack, this is a key provision that any Federal Reserve bank may make available funds through the direct issuance of a special certificate to that Federal Reserve bank in the event that the important areas of the country were disrupted in such frightful circumstance.

So that having this statutory authority on the books, in reasonable amount, of this kind, and with the facilities in readiness, also a part of the necessary precautionary planning for the event of a national defense emergency.

Such an emergency might disrupt financial markets at a time when the Treasury needed to float debt issues for new cash or refunding purposes, and direct access to Federal Reserve credit would be extremely helpful.

For these reasons, the Treasury feels that passage of H.R. 11654 is essential. I should like to emphasize that the direct purchase authority is regarded as a source of temporary accommodation only, not to be used except under unusual circumstances. The Treasury agrees with the general principle that public debt issues should be floated in the market and that central bank purchases should be made through this market. This principle provides a safeguard against abusive use of the credit of the central bank.

The Treasury, through the years, has been very careful not to abuse this direct borrowing authority. The accompanying table provides details on the instances of actual use of the direct borrowing authority since 1952. It shows that there has been only one occasion in the last 8 years on which the Treasury did, in fact, borrow directly from the Federal Reserve banks. In recent years the value of the authority has derived primarily from its availability to meet unusual circumstances. In the normal course of events, the authority might not have to be used at all, but its availability is nonetheless of considerable importance in providing flexibility in Treasury cash and debt management operations. The knowledge that it could be drawn upon almost instantly, if needed, has enabled the Treasury on countless occasions to plan for a close fit between expected outlays and receipts, secure in the knowledge that these supplemental funds could be borrowed in the event that expenditures should unexpectedly and temporarily outrun planned receipts.

(The table above referred to is as follows:)

Calendar year	Days used	Maximum amount at any time (millions)	Number of separate times used	Maximum number of days used at any one time
1952.....	30	811	4	9
1953.....	29	1,172	2	20
1954.....	15	424	2	13
1955.....	None			
1956.....	None			
1957.....	None			
1958.....	2	207	1	2
1959.....	None			
1960.....	None			
1961.....	None			
1962.....	None			

Mr. ROOSA. That concludes my prepared statement, Mr. Chairman, and copies of it have been made available to the committee.

The CHAIRMAN. Mr. Roosa, this authority has been in effect really since the creation of the Federal Reserve System, has it not?

Mr. ROOSA. The authority, with some variations, Mr. Chairman. The present form of the authority dates from 1942. There was an interval of 7 years in which it was not possible under the law to oper-

ate in exactly this way. But except for those 7 years, this has been in effect since the founding of the Federal Reserve, nearly 50 years ago.

The CHAIRMAN. Mrs. Dwyer?

Mrs. DWYER. No questions.

The CHAIRMAN. Mr. Barrett?

Mr. BARRETT. I assume, Mr. Roosa, that all you are requesting here today is an extension until 1964?

Mr. ROOSA. Yes, sir; that is correct.

Mr. BARRETT. On page 2 you state, and I quote:

The current authority expires June 30, 1962. Although the direct purchase authority is employed only infrequently and has not been used at all since 1958, its continuation is essential because it provides an important backstop for Treasury cash and debt management operations.

Would you explain in greater detail for us?

Mr. ROOSA. Yes, sir; I think one way would be to provide a few illustrations.

On the cash management side, there are three or four times during the year when we have fairly heavy expenditures which fall due on the 15th of the month. December 15 is a good example. The tax receipts that are due as of the 15th flow in through the banking system at a lagging pace because we allow our taxpayers to receive credit for any check dated on the 15th. Consequently, we know that we can plan ahead and predict with reasonable accuracy for a flow, owing to the time required for the mails and processing of checks, that will be arriving over the next week, sometimes even 10 days, following the 15th.

We also know that most of the contractual disbursements, including the payment of interest on the public debt, as well as the retiring of maturing debt—we have to take this into account in some cases, not, however, those obligations specifically identified as tax anticipation obligations—these payments normally are on the 15th of the month, just to conform with financial practice. Thus disbursements would occur on the 15th, and the cash flows in a little later. We try to plan so that there will be an assurance of adequate balances all the way. But, if we were to plan for the outside risk, the one in a million risk, or the 1 in 10,000 risk, just to be certain that there would never be a taint on the Government's credit by a delay in meeting its payments, we would have to carry, and obtain through borrowing in advance, a somewhat higher cash balance, even though we would be in a position to retire it 10 days after the tax date.

The knowledge that we can turn to this authority if need be, allows us the same kind of operating freedom, the opportunity to take that slight risk that our own calculations may be wrong; that would apply in the case of an individual who is planning his own cash flow but might have arranged with a bank that in the event some unexpected development occurs he can have a short-term loan for a few days.

Mr. BARRETT. One further question. Over this 7-year period in which you did not have the authority, were there any unusual conditions at that time?

Mr. ROOSA. Yes, sir; in relation to the size of the Treasury's cash flow at that time, it did prove necessary to maintain a considerably larger cash balance. The cash balance then, of course, is very hard to

put into present terms, because before World War II the whole scale of Federal Government operations was entirely different, but the ratio between cash balance and the annual or monthly cash flow, was considerably higher.

I would be glad to provide a record of that, if you would like, sir.

Mr. BARRETT. That would be fine.

Mr. ROOSA. Very good.

(The data referred to above is as follows:)

Ratio of Treasury operating¹ cash balance to average budget expenditures, fiscal years 1932-62

[Dollar figures in billions]

Fiscal year	Average operating cash balance ²	Average monthly budget expenditures	Ratio—cash balance to expenditures (percent)
1932.....	\$0.4	\$0.4	100
1933.....	.6	.4	150
1934.....	2.1	.6	350
1935.....	2.4	.5	480
1936.....	1.8	.7	257
1937.....	1.6	.6	267
1938.....	2.3	.6	383
1939.....	2.3	.7	329
1940.....	1.7	.8	213
1941.....	1.5	1.1	136
1942.....	2.3	2.8	82
1943.....	5.8	6.6	88
1944.....	12.9	7.9	163
1945.....	16.0	8.2	195
1946.....	20.1	5.1	394
1947.....	7.2	3.3	218
1948.....	3.9	2.7	144
1949.....	4.4	3.3	133
1950.....	4.2	3.3	128
1951.....	4.8	3.7	132
1952.....	4.7	5.4	86
1953.....	5.6	6.2	91
1954.....	5.1	5.6	90
1955.....	5.0	5.4	93
1956.....	4.4	5.5	79
1957.....	3.9	5.7	68
1958.....	4.2	5.9	70
1959.....	4.5	6.7	67
1960.....	4.7	6.4	74
1961.....	4.8	6.8	70
1962 ³	5.2	7.4	71

¹ Gold plus available funds in Federal Reserve banks plus tax and loan accounts.

² 13-month average of end-of-month figures for 1932 through 1949; average of monthly averages of daily figures for 1950 to date.

³ Estimated.

Mr. BARRETT. That is all.

The CHAIRMAN. Mr. SCRANTON.

Mr. SCRANTON. Mr. Roosa, just a couple of questions.

The chart at the end of your statement indicates that some fairly sizable amounts were borrowed in 1952 and 1953. What occasioned that?

Mr. ROOSA. I believe the occasion in 1958—you will notice it was used for only 2 days.

Mr. SCRANTON. I was referring to 1952 and 1953.

Mr. ROOSA. The large number of occasions in 1952 and 1953 were instances in which—you will have to bear in mind two things which have changed since that time: First, instances of the kind that I have just described.

Mr. SCRANTON. Yes.

Mr. ROOSA. Second, cases in which it was important to borrow in advance in order to minimize and stretch out the strain on the money market from a very sizable shift of funds into the Treasury balances in the Federal Reserve banks, and then out again.

Now, we have changed the procedures that required that. In 1955 we changed those procedures. I was at the other end of the process then, on the trading desk in New York, when we introduced a new class of depositary, with respect to the very large banks, wherein we told them that henceforth they would have to be subject to a kind of arrangement in which they could, instead of having notice of the call of funds, could expect that up to 11 o'clock in the morning on any day, they could be notified that they had to make payment, during the course of that business day, of a substantial part of their outstanding Government deposits.

On the other side, and this we follow carefully to see that there is no inequity resulting from this, on days when Government accounts in the Federal Reserve banks are rising very high, and there would in this way be a strain on the market as these funds move out of the market, and into the impounded balances in the Federal, on those days we may also by notice at 11 in the morning make a redeposit of those funds into Government checking accounts so that they can get the funds back and use them for the rest of the day.

So that there is a fair exchange. There has been some complaint, but, overall, you can see the principal effect of it in this table. Since 1954 there has been virtually no use of this facility.

Mr. SCRANTON. In the history of this provision and its operation, what is the most amount of money borrowed at any one time?

Mr. ROOSA. I should know that, sir.

Mr. SCRANTON. All I am trying to get at is——

Mr. ROOSA. Yes, sir; the maximum as indicated in this table, in 1953, was \$1,172 million.

Mr. SCRANTON. I was thinking of previous to that.

Mr. ROOSA. Going back earlier, and before the war, I would have to review that.

Mr. SCRANTON. Has it ever been a very sizable amount?

Mr. ROOSA. No, never.

(The following information was added at this point to the record:)

HISTORY OF DIRECT TREASURY BORROWING FROM THE FEDERAL RESERVE BANKS

The act of December 23, 1913, the original Federal Reserve Act, gave the Federal Reserve banks general authority to purchase Government obligations without specific reference to direct purchases from the Treasury, and without limitation as to amount.

The record is not clear on any earlier use, but during the 1920's and early 1930's 1-day certificates of indebtedness were issued by the Treasury to the Federal Reserve banks at times when the Treasury had allowed cash balances to fall in anticipation of quarterly tax receipts. If funds were needed for more than 1 day, the prior day's securities were paid off and new 1-day securities were issued. The majority of 1-day certificates were issued to the Federal Reserve banks in the months of March, June, September, November, and December. Table 1 shows the maximum amounts of 1-day certificates issued by the Treasury to the Federal Reserve banks for the years 1923-33. The last record of an issue of this type was on December 17, 1933. It will be noted in table 1 that the largest 1-day certificate outstanding during the period covered by the table was for \$316 million. This certificate was issued on December 15, 1928.

The Banking Act of 1935, approved August 23, 1935, authorized the Federal Reserve to purchase Government obligations only in the open market. During the 7 years, 1935 to 1942, the Treasury did not borrow directly from the Federal Reserve banks.

The Second War Powers Act, approved March 27, 1942, amended section 14(b) of the Federal Reserve Act so as to authorize the Federal Reserve banks to purchase securities directly from the Treasury with a limitation of \$5 billion outstanding at any one time, to expire on December 31, 1944. This authorization has been successively extended; the current authorization, provided by the act of July 1, 1960, expires on June 30, 1962.

Table 2 shows the use which has been made of the direct borrowing authority beginning with the calendar year 1942. Since 1942, as shown in the table, the maximum amount of borrowing outstanding at any one time was in 1943, and amounted to \$1,320 million.

TABLE 1.—1-day certificates of indebtedness issued by the U.S. Treasury to the Federal Reserve banks, 1923–33

Calendar year	Day used	Maximum amount at any time (millions)	Calendar year	Day used	Maximum amount at any time (millions)
1923.....	30	\$156.5	1929.....	17	\$314.0
1924.....	14	184.0	1930.....	18	218.0
1925.....	15	182.0	1931.....	18	219.5
1926.....	14	246.0	1932.....	8	32.0
1927.....	46	251.5	1933.....	4	9.0
1928.....	20	316.0			

TABLE 2.—Direct borrowing from Federal Reserve banks, 1942 to date

Calendar year	Days used	Maximum amount at any time (millions)	Number of separate times used	Maximum number of days used at any one time
1942.....	19	\$422	4	6
1943.....	48	1,320	4	28
1944.....	None			
1945.....	9	484	2	7
1946.....	None			
1947.....	None			
1948.....	None			
1949.....	2	220	1	2
1950.....	2	108	2	1
1951.....	4	320	2	3
1952.....	30	811	4	9
1953.....	29	1,172	2	20
1954.....	15	424	2	13
1955.....	None			
1956.....	None			
1957.....	None			
1958.....	2	207	1	2
1959.....	None			
1960.....	None			
1961.....	None			
1962—January–May.....	None			

Mr. SCRANTON. Thank you. That is all.

The CHAIRMAN. Mr. REUSS.

Mr. REUSS. Thank you, Mr. Chairman.

Thank you, Secretary Roosa, for your very clear exposition. I do have a couple of questions about this extension, which I support.

From 1913 to 1935, the Federal Reserve could buy directly from the Treasury, could it not?

Mr. ROOSA. Yes, sir.

Mr. REUSS. And today the Federal Reserve has some \$28 billion of U.S. Government securities in its portfolio, is that not approximately correct?

Mr. ROOSA. About right; yes, sir.

Mr. REUSS. What I am getting at is, why the limitation to \$5 billion here? I take it the reason is contained on page 4 of your prepared testimony, where you say "the Treasury agrees with the general principle that public debt issues should be floated in the market and that central bank purchases should be made through this market," is that correct?

Mr. ROOSA. Yes, sir.

Mr. REUSS. Let me find out about the mechanics of these arrangements. If the Treasury wants to sell a \$1,000 note certificate or bond to the Federal under this \$5 billion provision, the Federal, of course, has to agree?

Mr. ROOSA. Yes, sir.

Mr. REUSS. You have to have a ready and willing buyer in the Federal before you can transact this business?

Mr. ROOSA. Yes, sir.

Mr. REUSS. What is the sale price? Is it at par?

Mr. ROOSA. Normally, it would be an issue of a certificate of indebtedness, at par, and then, bearing a rate of interest, computed daily, but an annual rate equal to one-quarter of 1 percent under the discount rate of the Federal Reserve Bank of New York. Sometimes there are differences among the Federal banks so we use the New York Federal as the basis.

Mr. REUSS. This, then, is inexpensive borrowing for the U.S. Treasury, is it not?

Mr. ROOSA. Yes, sir; it is.

Mr. REUSS. You say a quarter of a percentage point, then, do I gather?

Mr. ROOSA. No. Year in and year out it would be a little hard to predict. At the moment, if we were to use it, with the discount rate being three, we would borrow at $2\frac{3}{4}$. We auctioned Treasury bills yesterday at 2.72. So it is pretty close.

Mr. REUSS. If you were utilizing this special \$5 billion direct borrowing, what would you pay the Federal?

Mr. ROOSA. We would pay $2\frac{3}{4}$ at the present discount rate. Two and three quarters interest per annum, for whatever days we were indebted in this way.

Mr. REUSS. So it is about the same?

Mr. ROOSA. Just about the same.

Mr. REUSS. What about commissions, when you deal through the public debt market? Somebody obviously gets a commission along the route. That is to say, from the time you issue the security and the time it gets into the hands of the Federal Reserve in accordance with its regular portfolio procedures, what happens to that piece of paper?

Mr. ROOSA. Perhaps there is more to this question, and I don't mean to be neglecting that if I should come back to it, but if you mean the Treasury bill, the issuance of the Treasury bill, just as an illustration, we had an auction on Monday, as we normally do. The terms of that auction, that is what was being offered, were announced the previous

Wednesday. After the results of the auction were announced late last night, those who were successful bidders knew that they were going to come into possession of Treasury bills on Thursday of this week. There is, therefore, an interval of Tuesday and Wednesday, as we say, of "when issued owners." They will receive the piece of paper on Thursday, and they will pay their money on Thursday. If they find an opportunity to sell their rights over this interval, they can sell it, and if they make money on it, as sometimes dealers do, depending upon the way the market goes the day after the auction, that might be what you are referring to as the commission.

There isn't any other commission. The Treasury, itself, does not make a payment to anyone. And Treasury bills are paid for without commission.

Mr. REUSS. Let us talk about notes and certificates and bonds for a moment.

Do I understand that the dealers in U.S. securities charge no commission for purchases and sales, but simply make their money out of their inventory?

Mr. ROOSA. Yes, sir; the spread between their bid and asked prices. They always maintain a spread, and competition determines how wide or narrow that spread will be, and also the state of the market. In a period of great uncertainty they widen the spreads.

Mr. REUSS. Wouldn't it be true that to the extent that the Federal Reserve, in the normal course of its secular additions to the money supply, buys directly from the Treasury, rather than through the market, that the Treasury ends up with that in its pocket, which the bond dealers would otherwise have in their pockets?

Mr. ROOSA. Yes, sir. The point then, of a fixed interest bearing obligation, might be illustrated by saying that on issuance, the security immediately begins to trade at its price, up or down from par. If the Federal Reserve on becoming a buyer of this security from a dealer paid somewhat more than par in the market, than it would pay for the security on an initial issue, the normal dealer hope is that, of course, that to whomever they will sell, they will make money. On balance, over the years, since they do, this would no doubt apply on an average to Federal Reserve purchases.

The other side of this is that both the Treasury and the Federal Reserve require, for the effectiveness of their operations, an active and broad trading market in Government securities. Therefore if on balance there is some attributable part of the Federal Reserve purchase which flows into the maintenance of this market, I think we would have to judge it on whether or not that is serving the public interest. In the continued maintenance of a vigorous market the Federal, along with all other buyers, has the opportunity of buying at whatever is the going market price, and, of course, very often what happens is that the Federal buys at bargain prices.

Mr. REUSS. I thoroughly agree with you that it is in the national interest to maintain a good, vigorous, private market in U.S. securities. I am not suggesting for a moment that we socialize that market. However, I am also interested, as I know you are, in saving money for the taxpayers.

Mr. ROOSA. Indeed.

Mr. REUSS. So I come to my main question: Has the Treasury or the Federal Reserve ever made a study to determine just how large a private market in the securities of the National Government it is necessary to maintain? It might turn out, for instance, that the Federal Reserve could impinge somewhat on the present market, saving money for the taxpayers as it so impinges, without in any way disturbing the vigorous character of the private market.

I wondered if anybody had taken out a slide rule and tried to make that determination?

Mr. ROOSA. Yes, sir; we have, and in order to make that possible—and I should here acknowledge the influence both of yourself, and particularly, I think, of Senator Douglas, in providing some initial urging at times when this seemed like really a forbidding statistical effort—we initiated, just 2 years ago, a very detailed daily reporting system from all of the dealers—and this includes their transactions and the prices at which they are making markets throughout the day—so that, on the basis of this information now, and for about a 2-year period, it is possible to make the kind of calculation you are suggesting. However, we have been very careful to also assure that the complete confidentiality of individual dealer data would be maintained.

For example, I want to be protected from knowing the situation of any individual dealer. I have not looked at that kind of information at all. I have looked at tabulations, and I must say that my conclusion to date is that the market is certainly adequate, and is indeed vigorous, in the under 1 year area. Beyond that I feel that it leaves something to be desired. So that if anything the longer term market needs additional encouragement rather than having to function without some direct Federal Reserve participation.

This goes back to another point we have talked about at other times. I am a little regretful there has not been more Federal Reserve activity in that part of the market, rather than being kept to the fairly limited volume we have seen in the last few months.

Mr. REUSS. Would it be possible to place the result of your studies before this committee in the near future? Not necessarily as part of this record, because we want to get this particular bill out, indeed have to, by June 30.

Mr. ROOSA. Yes, sir; surely.

Mr. REUSS. Let me recapitulate what I am after, although I think our minds have been meshed here.

I would like to know from your studies, and this should be divided into the various segments of the market, under 1 year, over year one, and so on, to what extent the Federal Reserve could, if Congress so willed, enlarge its direct purchasing power from the Treasury, and if it did so, what the net savings to the taxpayer would be, and, also, where the limits of this are likely to be, having in mind the need for preserving at all maturities a lively and vigorous market.

Do you feel that you understand what I am driving at?

Mr. ROOSA. Yes, indeed, and I think this is a somewhat different subject. We would be glad to explore the questions involved more fully with you as we go along. We would certainly be glad to come back to deal with this in, I hope, a fully responsive way.

Mr. REUSS. I think not necessarily in conjunction with this hearing. You could write the chairman so that we would have it in our records.

Mr. ROOSA. Surely.

Mr. REUSS. Thank you.

The CHAIRMAN. Mr. Moorhead.

Mr. MOORHEAD. Mr. Roosa, under this statutory authorization, could the Federal Reserve refuse to lend to the Treasury when the Treasury called for it, or is it a requirement that the Fed must come up with the amount that the Treasury asked for?

Mr. ROOSA. No, sir; in law, the Federal Reserve could refuse, and this would then require—you may have noticed that I said “almost instantly,” and not “instantly,” in terms of the availability of the funds—this would require action on the part of the Open Market Committee. In practice, going back to one time when this occurred in 1958, I remember the way in which this was done. There was an advance discussion of the possibility with the Open Market Committee, so that when the initiation of the facility came after, in February, there had already been tentative approval, and it simply required a triggering to bring it about.

But there was a need for formal action by the Open Market Committee, on its side. The purport of this bill is to permit the transaction to occur, but not to direct the Federal Reserve to do it at the Treasury's instant bidding.

Mr. MOORHEAD. You have discussed with us how the interest rate was arrived at?

Mr. ROOSA. Yes, sir.

Mr. MOORHEAD. Is that authorized by statute, regulation, agreement, or how?

Mr. ROOSA. It is by agreement and subject to review. The suggestion formally comes, I think, shortly following the reenactment of this authority, whenever that has occurred in the past, with the Treasury and the Federal Reserve discussing the appropriateness of renewing this kind of interest rate charge. Then an action of the Open Market Committee is taken so that there will be no need for debating these technicalities. These things can be taken care of very quickly.

Mr. MOORHEAD. But, legally, in the future, the Open Market Committee could either refuse to lend or insist upon different terms than have been the case in the past?

Mr. ROOSA. Yes, sir.

Mr. MOORHEAD. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Stephens.

Mr. STEPHENS. Thank you, Mr. Chairman.

Mr. ROOSA, as I understand it, there is no expectation that this authority would be used any time soon; is that right?

Mr. ROOSA. Yes, sir. We rely on it, and we are most successful when we don't actually draw on it.

Mr. STEPHENS. That is, this is primarily like a safety valve?

Mr. ROOSA. Yes, sir.

Mr. STEPHENS. Thank you. That is all.

The CHAIRMAN. Are there any other questions?

If not, Mr. Roosa, thank you very much for your very clear and informative statement, and we hope to have you before the committee often.

Mr. ROOSA. Thank you very much, Mr. Chairman.

The CHAIRMAN. This will conclude the hearings, and we will go into executive session on the bill.

Mr. POSTON. Mr. Spence, we have a letter from Mr. Martin of the Federal Reserve Board on this bill favoring enactment. Would you like to have it included in the record?

The CHAIRMAN. Yes, sir; that will be included in the record.

We will go into executive session.

(The letter from Mr. Martin, referred to above, is as follows:)

BOARD OF GOVERNORS,
OF THE FEDERAL RESERVE SYSTEM,
OFFICE OF THE CHAIRMAN,
Washington, June 13, 1962.

HON. BRENT SPENCE,
*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to a request by telephone on June 12 from Robert R. Poston, counsel of your committee, for the views of the Board on H.R. 11654, a bill to amend section 14(b) of the Federal Reserve Act, as amended, to extend for 2 years the authority of Federal Reserve banks to purchase U.S. obligations directly from the Treasury.

The use of this authority by the Federal Reserve enables the Treasury to avoid creating unnecessary financial strains that would otherwise occur if it had to draw heavily on its accounts especially during periods immediately preceding tax payment dates. Temporary Treasury borrowing at such times, followed by prompt repayment from the proceeds of tax payments, provides a smooth operating mechanism, without the abrupt money market fluctuations that would otherwise occur. The authority could also be useful in dealing with situations resulting from a national emergency. Since 1942, when the authority was granted, it has been used sparingly, and its use is reported, as required by law, each year in detail in the Board's annual report. The results of its use also appear currently in weekly statements issued by the Federal Reserve and in daily statements issued by the Treasury. The Board favors the proposed legislation.

Sincerely yours,

WM. MCC. MARTIN, Jr.

(Whereupon, at 11 a.m., the subcommittee proceeded into executive session.)

