

(The statement referred to follows:)

STATEMENT OF FREDERICK L. DEMING, UNDER SECRETARY OF THE TREASURY FOR
MONETARY AFFAIRS

I am very happy to appear before you this morning in support of S. 2923, which would extend until June 30, 1970, the present authority of the Federal Reserve Banks to purchase public debt obligations directly from the Treasury up to a limit of \$5 billion outstanding at any one time.

My statement is quite brief, since I do not believe that provision of the necessary means for the efficient management of the public finances is or ought to be controversial.

This authority, which would otherwise expire on June 30 of this year, was first granted in its present form in 1942 for a temporary period. It has been renewed on 13 separate occasions since that time. While used only very sparingly during these past 26 years, I strongly share the conviction of my predecessors that maintenance of this authority is essential to the proper and economical management of the finances of the Government.

As shown in the table attached to my statement, the direct purchase authority was used on four occasions since it was last extended by the Congress two years ago. The authority was used only for a few days at a time, and the maximum amount outstanding at any one time was \$169 million. These borrowings occurred just prior to tax payment dates thus permitting the Treasury to operate with lower cash balances than would otherwise be required.

The figures in the table show clearly that the authority has not been abused. I firmly believe that our borrowings should meet the test of the market and that the direct purchase authority is not intended to allow the Treasury to circumvent the authority and responsibility of the Federal Reserve System in its Open Market Account operations. Any use of the authority, moreover, is clearly subject to the discretion of the Federal Reserve System and, thus, it can serve as an added instrument of Federal Reserve monetary policy. I might also add that these borrowings, like any other Treasury borrowings, are subject to the statutory debt limit.

Continuance of the direct purchase authority is essential for three reasons.

First, it permits us to allow our cash balance to decline to unusually low levels during times when our revenues are seasonally low. We are, thus, enabled to keep the public debt to a minimum and to save on the interest costs of the Government. Without the potential ability to borrow directly from the Federal Reserve, these low balances could not prudently be maintained even for very brief periods. Rather we would be compelled to enlarge our cash balances by borrowing additional amounts in the market even though these amounts might be needed only for a short while.

Second, there is always the possibility that temporarily unfavorable conditions in the money and credit markets may make it desirable, both from our own point of view and that of the Federal Reserve System, to postpone for a short time a planned Treasury market borrowing. The possibility of direct access to the Federal Reserve provides the flexibility required in such a situation.

Finally, I need not stress that the direct purchase authority is a key element in our financial planning for a national emergency, such as might result from a nuclear attack on the United States. In such circumstances our financial markets could be seriously disrupted at a time when large amounts of cash were necessary to meet emergency requirements. It is for this reason that an authority as large as \$5 billion is required although such a large amount has never been used.

I might add that it would be advantageous in this uncertain world, if the temporary authority were to be made permanent. We are not, however, proposing that this be done although this committee might wish to discuss the question.