

The original documents are located in Box 32, folder “11/12/75 SJR134 Extending Authority for Direct Purchase by Federal Reserve Banks of United States Obligations” of the White House Records Office: Legislation Case Files at the Gerald R. Ford Presidential Library.

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APPROVED
NOV 12 1975

Signed
11/12

THE WHITE HOUSE
WASHINGTON
November 10, 1975

ACTION
Last Day: November 12

Posted
11/12

MEMORANDUM FOR

THE PRESIDENT

FROM:

JIM CANNON ~~✗~~

SUBJECT:

Enrolled Resolution S.J. Res. 134
Extending authority for direct
purchase by Federal Reserve
banks of United States obligations

To Archives
11/12

Attached for your consideration is S.J. Res. 134, sponsored by Senator Proxmire, which extends for one year (from October 31, 1975 to October 31, 1976) the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury.

Additional information is provided in OMB's enrolled bill report at Tab A.

OMB, CEA, Max Friedersdorf, Counsel's Office (Lazarus), Bill Seidman and I recommend approval of the enrolled resolution.

RECOMMENDATION

That you sign S.J. Res. 134 at Tab B.





EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

NOV 5 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Resolution S.J. Res. 134 - Extending
authority for direct purchase by Federal Reserve
banks of United States obligations
Sponsor - Sen. Proxmire (D) Wisconsin

Last Day for Action

November 12, 1975 - Wednesday

Purpose

Extends for one year (from October 31, 1975, to October 31, 1976) the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury.

Agency Recommendations

Office of Management and Budget	Approval
Department of the Treasury	Approval
Board of Governors of the Federal Reserve System	Approval
Council of Economic Advisers	No objection

Discussion

The enrolled resolution would amend section 14 (b) of the Federal Reserve Act to provide for a one-year extension (to October 31, 1976) of the authority of Federal Reserve banks to purchase public debt obligations directly from the Treasury in an amount not to exceed \$5 billion outstanding at any one time.

This direct-purchase authority was initially enacted in 1942 as a standby means of permitting more economical cash and debt management and assuring an immediate source of funds in the event of disruption in the private financial markets due

to national emergencies. The original authority has subsequently been extended from time to time, the last extension being in 1974 for a one-year period which expired on October 31, 1975.

In recent years, this authority has been relied upon in periods immediately preceding tax payment dates, inasmuch as its existence permits the Treasury to operate with considerably lower cash balances than would otherwise be required.

James M. Frey
Assistant Director
for Legislative Reference

Enclosures



THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON, D.C. 20220

OCT 31 1975

Director, Office of Management and Budget
Executive Office of the President
Washington, D. C. 20503

Attention: Assistant Director for Legislative
Reference

Sir:

Reference is made to your request for the views of this Department on the enrolled enactment of S.J. Res. 134, "To extend the authority for the direct purchase of United States obligations by Federal Reserve banks." The current authorization expires October 31, 1975.

The enrolled bill extends, for one year, the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury.

The Department submitted to Congress legislation to provide for a 2 year extension of the direct purchase authority. However, we recommend that the enrolled enactment be approved by the President.

Sincerely yours,


General Counsel



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 31, 1975

Mr. James M. Frey
Assistant Director for
Legislative Reference
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Frey:

This is in response to your request of October 29, 1975, requesting comments on S.J. Res. 134, which provides for a 1-year extension of the authority of Federal Reserve Banks to purchase obligations of the United States directly from the U.S. Treasury.

The views of the Board of Governors in support of the extension of this authority have been expressed by Governor Coldwell in testimony on October 23, 1975, before the Subcommittee on Domestic Monetary Policy of the Committee on Banking, Currency, and Housing, House of Representatives. In accordance with your request, I am enclosing two copies of Governor Coldwell's prepared statement.

Very truly yours,

A handwritten signature in cursive script that reads "Theodore E. Allison".

Theodore E. Allison
Secretary of the Board

Enclosures



FOR RELEASE ON DELIVERY

Statement by

Philip E. Coldwell

Member, Board of Governors of the Federal Reserve System

before the

Subcommittee on Domestic Monetary Policy

of the

Committee on Banking, Currency and Housing

House of Representatives

October 23, 1975

I am pleased to meet with the Committee today to present the views of the Board of Governors on H.R. 7507, a bill that would amend Section 14(b) of the Federal Reserve Act to extend for two years the authority of Federal Reserve Banks to purchase United States obligations directly from the U.S. Treasury. The current authority expires on the 31st of this month.

Since first authorized by Congress in 1942, the direct purchase authority of Section 14(b) has been used sparingly from the standpoint of frequency, amount, and duration alike. In fact, since Congress last extended this authority on October 28, 1974, it has only been used on three occasions. Nonetheless, in such instances, it has proven of great value in facilitating the economic management of the Treasury's cash and debt positions.

The authority has been used exclusively at times when the Treasury has been faced with an abrupt temporary depletion of its cash balance, chiefly just prior to the receipt of quarterly tax payments. Rather than issue debt in the market to borrow funds needed for only a few days, the Treasury has sold securities directly to the Federal Reserve Banks under this provision of law. Then, immediately after tax payments were received, these special debt obligations were retired. Timely use of this direct lending authority has thus enabled the Treasury to minimize its public financing activity--thereby avoiding unnecessary strains on financial markets--and to achieve a more efficient management of its cash balance.



In both March and August of the current year, the Treasury has found it useful to issue special obligations directly to the Federal Reserve. During the first period, which surrounded the March 15 income tax date, the daily average of System holdings of such obligations amounted to about \$750 million, and the largest amount held on any one day was a little over \$1.0 billion. In the second period--which encompassed a major Treasury refinancing that also raised some new money--the Federal Reserve Banks held special Treasury debt obligations on most days between August 5 and August 17. The average of holdings on these days was about \$520 million, and the highest amount held on any one day was \$965 million.

In addition to serving as an instrument for achieving short-run cash management objectives, the Board believes that the direct purchase authority of Section 14(b) has provided and will continue to provide the Treasury with a desirable safety valve against an unexpected shortfall in its cash balance. Such a shortfall could develop if estimates of government receipts and expenditures, which are difficult to project, should suddenly turn out to be materially in error. Also the sheer volatility of the Treasury balance and the unpredictability of some fluctuations constantly threaten shortfalls or an overdraft. If Treasury is to manage its balances to the minimum needed then some protection

should be provided. Since there is little cost to the direct purchase arrangements and since they have been used quite sparingly, it would seem logical to us that the authority be renewed. Direct purchase authority, moreover, would prove particularly valuable if a period of national emergency were to develop, since it would enable the Treasury to respond immediately to any financial strain that such conditions might create. Unusual strains which might threaten the immediate sale of securities in a disorderly market could also be covered by the special purchase arrangements.

From the standpoint of Federal Reserve operations, the special purchase authority has been only a minor complication. When the direct purchase takes place and the Treasury expends these funds, the Federal Reserve may take some offsetting actions in order to maintain the monetary policy environment deemed desirable for the financial needs of the economy. Thus, to a considerable extent, such special sales to the Federal Reserve are then translated into System sales to the market. Of course, System open market responses to the use of the special purchase arrangements in any given period will depend upon the duration, size, and timing of the Treasury use, and the particular reserve needs of the moment.

In the Board's view, if this special purchase arrangement were not to be extended, then some other emergency device would be



needed to enable the Treasury to meet the unexpected. Obviously, if the Treasury were to abuse the special authority or if the program were sharply enlarged, the Board would have some concern. But given the small use and the modest size of the special authority the Board has no reason for objecting to its use. In summary, it is the Board's view that the Federal Reserve System's authority to purchase obligations directly from the Treasury should be extended.

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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 31, 1975

Dear Mr. Frey:

The Council of Economic Advisers has no objections to the President's signing S. J. Res. 134 "To extend the authority for the direct purchase of United States obligations by Federal Reserve banks."

Sincerely yours,



Paul W. MacAvoy
Acting Chairman

Mr. James M. Frey
Assistant Director
for Legislative Reference
Office of Management & Budget
Washington, D. C.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

To Carman
11-5-75
MDL

NOV 5 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Resolution S.J. Res. 134 - Extending
authority for direct purchase by Federal Reserve
banks of United States obligations
Sponsor - Sen. Proxmire (D) Wisconsin

Last Day for Action

November 12, 1975 - Wednesday

Purpose

Extends for one year (from October 31, 1975, to October 31, 1976) the authority of Federal Reserve banks to purchase United States obligations directly from the Treasury.

Agency Recommendations

Office of Management and Budget	Approval
Department of the Treasury	Approval
Board of Governors of the Federal Reserve System	Approval
Council of Economic Advisers	No objection

Discussion

The enrolled resolution would amend section 14 (b) of the Federal Reserve Act to provide for a one-year extension (to October 31, 1976) of the authority of Federal Reserve banks to purchase public debt obligations directly from the Treasury in an amount not to exceed \$5 billion outstanding at any one time.

This direct-purchase authority was initially enacted in 1942 as a standby means of permitting more economical cash and debt management and assuring an immediate source of funds in the event of disruption in the private financial markets due



to national emergencies. The original authority has subsequently been extended from time to time, the last extension being in 1974 for a one-year period which expired on October 31, 1975.

In recent years, this authority has been relied upon in periods immediately preceding tax payment dates, inasmuch as its existence permits the Treasury to operate with considerably lower cash balances than would otherwise be required.

(Signed) James M. Frey,

**Assistant Director
for Legislative Reference**

Enclosures



THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 905

Date: November 7

Time: 6:00pm

FOR ACTION: Bill Seidman *MS*
Dick Parsons *MS*
Paul Leach *MS*
Max Friedersdorf *MS*
Ken Lazarus *MS*

cc (for information): Jack Marsh
Jim Cavanaugh
Warren Hendricks

FROM THE STAFF SECRETARY

DUE: Date: November 10

Time: 5:00pm

SUBJECT:

S.J. Res. 134 - Extending authority for direct purchase by Federal Reserve banks of U.S. obligations

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President



Date: November 7

Time: 230pm

FOR ACTION: Bill Seidman
Dick Parsons
Paul Leach
Max Friedersdorf
Ken Lazarus

cc (for information): Jack Marsh
Jim Cavanaugh
Warren Hendriks

FROM THE STAFF SECRETARY

DUE: Date: November 10

Time: 11:00am

SUBJECT:

S.J. Res. 134 - Extending authority for direct purchase by Federal Reserve banks of U.S. obligations

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

Reviewed

Approval

D.L. Parsons



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James H. Cavanaugh
For the President

Date: November 7

Time: 230pm

FOR ACTION: Bill Seidman
Dick Parsons
Paul Leach
Max Friedersdorf
Ken Lazarus

cc (for information): Jack Marsh
Jim Cavanaugh
Warren Hendriks

FROM THE STAFF SECRETARY

DUE: Date: November 10

Time: 11:00am

SUBJECT:

S.J. Res. 134 - Extending authority for direct
purchase by Federal Reserve banks of U.S. obligations

ACTION REQUESTED:

 For Necessary Action For Your Recommendations Prepare Agenda and Brief Draft Reply For Your Comments Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

No objection. -- Ken Lazarus 11/10/75

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a
delay in submitting the required material, please
telephone the Staff Secretary immediately.

James H. Cavanaugh
For the President



Date: November 7

Time: 230pm

FOR ACTION: Bill Seidman
Dick Parsons
Paul Leach
Max Friedersdorf
Ken Lazaruscc (for information): Jack Marsh
Jim Cavanaugh
Warren Hendriks

FROM THE STAFF SECRETARY

DUE: Date: November 10

Time: 11:00am

SUBJECT:

S.J. Res. 134 - Extending authority for direct
purchase by Federal Reserve banks of U.S. obligations

ACTION REQUESTED:

- | | |
|---|---|
| <input type="checkbox"/> For Necessary Action | <input type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief | <input type="checkbox"/> Draft Reply |
| <input checked="" type="checkbox"/> For Your Comments | <input type="checkbox"/> Draft Remarks |

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

*approval
JWB*



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James H. Cavanaugh
For the President

THE WHITE HOUSE

WASHINGTON

November 10, 1975

MEMORANDUM FOR: JIM CAVANAUGH

FROM: MAX L. FRIEDERSDORF *M. L. F.*

SUBJECT: S. J. Res. 134 - Extending authority for direct purchase by Federal Reserve banks of U. S. obligations

The Office of Legislative Affairs concurs with the agencies that the subject bill be signed.

Attachments



EXTENDING THE AUTHORITY FOR DIRECT PURCHASE OF U.S. OBLIGATIONS BY FEDERAL RESERVE BANKS

OCTOBER 1 (legislative day, SEPTEMBER 11), 1975.—Ordered to be printed

Mr. PROXMIRE, from the Committee on Banking, Housing and Urban Affairs, submitted the following

REPORT

[To accompany S. J. Res. 134]

The Committee on Banking, Housing and Urban Affairs to which was referred the joint resolution (S. J. Res. 134) to extend the authority for the direct purchase of United States obligations by Federal Reserve Banks, having considered the same, reports favorably thereon without amendment and recommends that the joint resolution do pass.

The Committee on Banking, Housing and Urban Affairs reports favorably Senate Joint Resolution 134 which extends the authority for the direct purchase of U.S. obligations by Federal Reserve banks.

Senate Joint Resolution 134 would renew, until October 31, 1976, the authority of Federal Reserve banks to purchase directly from the Treasury public debt obligations up to a limit of \$5 billion outstanding at any one time. The direct purchase authority is a temporary accommodation to be used only under unusual circumstances.

The authority for Federal Reserve banks to make direct purchase of U.S. obligations was enacted in World War II and has been extended temporarily from time to time since enactment. The last extension (Public Law 93-495) extended the authority to October 31, 1975.

The committee has been informed by the Treasury that this authority is a needed and useful tool to have under certain circumstances.

The authority has been used in recent years only in periods just prior to tax payment dates. Its existence permits the Department to operate with considerably lower cash balances than would otherwise be required. The availability of the direct purchase authority is also important as a standby means of providing a ready source of funds in the event of a disruption in the private financial markets due to a serious national emergency or a nuclear attack on the United States. This resolution, therefore, continues the authority of the Reserve banks to make such purchases until October 31, 1976.

Ninety-fourth Congress of the United States of America

AT THE FIRST SESSION

*Begun and held at the City of Washington on Tuesday, the fourteenth day of January,
one thousand nine hundred and seventy-five*

Joint Resolution

To extend the authority for the direct purchase of United States obligations
by Federal Reserve banks.

*Resolved 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 is amended—*

(1) by striking out "November 1, 1975" and inserting in lieu
thereof "November 1, 1976"; and

(2) by striking out "October 31, 1975" and inserting in lieu
thereof "October 31, 1976".

Speaker of the House of Representatives.

*Vice President of the United States and
President of the Senate.*



October 31, 1975

Dear Mr. Director:

The following bills were received at the White House on October 31st:

S.J. Res. 134 ✓
S. 584

Please let the President have reports and recommendations as to the approval of these bills as soon as possible.

Sincerely,

Robert D. Linder
Chief Executive Clerk

The Honorable James T. Lynn
Director
Office of Management and Budget
Washington, D. C.

