

Mr. Eccles



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1948.

CONFIDENTIAL

Dear Sir:

Attached is a copy of the letter which Chairman McCabe handed to Secretary of the Treasury Snyder following the meeting of the Federal Open Market Committee yesterday. You will have noted that the Secretary today announced that the December and January refunding would be on a $1\frac{1}{4}$ per cent basis.

Very truly yours,

A handwritten signature in dark ink, appearing to read "S. R. Carpenter", is written over the typed name.

S. R. Carpenter, Assistant Secretary,
Federal Open Market Committee.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
(With copy marked for Mr. Rouse)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

November 15, 1948.

CONFIDENTIAL

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

Dear John:

In a meeting of the Federal Open Market Committee today I reviewed the informal discussions which we have had with you since my letter of October 13, 1948, outlining the views and recommendations of the Federal Open Market Committee with respect to Treasury debt management and Federal Reserve open market policies. While Mr. Sproul was not able to attend today's meeting, because of illness, I have discussed these matters with him and he concurs in the views expressed in this letter.

It is the opinion of the Committee that, notwithstanding the recent slackening in the public's sales of bonds to the Federal Reserve and some evidences of hesitation in business plans and commitments, the basic forces in the credit situation and the necessity for flexibility in Federal Reserve open market operations continue unchanged.

You have indicated a desire to make an immediate announcement of the December and January refunding without change in rates. It is the unanimous judgment of the members of the Committee that a decision and therefore an announcement would be premature at this time for the reason that it is not now possible to forecast market conditions with sufficient accuracy to justify a conclusion. We understand that an announcement of specific rates on the securities to be issued in a refunding operation can be deferred until a date early in December. In the meantime, we will continue the present support policy and will have the benefit of market developments and can review them at the next meeting of the Federal Open Market Committee which had already been set for November 30.

If notwithstanding this recommendation it is your decision to announce immediately a refunding on an unchanged rate basis, I can assure you that it will be the policy of the Committee, as heretofore, to support the current one-year issuing rate for Treasury certificates through the refunding period. At the same time the Committee will continue the policy stated in our letter of October 13 permitting flexibility in the Treasury bill market up to the limit imposed by the support of the current certificate rate.

The suggestion has been made that between now and the end of the year the Treasury draw upon its balances for the purpose of continuing

pressure on bank reserves. These funds would be used most effectively if the Treasury were to purchase long-term securities from the System account or, in the event the System is purchasing securities in the market to support the long-term rate, if the Treasury were to purchase long-terms directly from the market. The Committee is in agreement with this suggestion and recommends its adoption by the Treasury.

The Committee is of the opinion that it has become more necessary than ever to determine upon a comprehensive long-term program looking toward the refinancing of the public debt including the refunding of some of the outstanding debt into issues and maturities that the market will carry without undue reliance upon Federal Reserve support. We would like to discuss this matter with you at your earliest convenience.

Sincerely,

(Signed) Thomas B. McCabe

Thomas B. McCabe, Chairman,
Federal Open Market Committee.