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open market file

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

November 22, 1949.

CONFIDENTIAL

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

Dear John:

The executive committee of the Federal Open Market Committee met on November 18 and considered appropriate Federal Reserve policy in the light of recent developments in the business and credit situation. It appeared to the committee that these developments have demonstrated the great strength of the postwar economy of this country and that the outlook, at least for the next few months, is for an increased volume of public and private spending which will reintroduce an inflationary bias in our economy, even though it does not result in a renewal of general price advances. Under these circumstances, and within the general framework of the policy which the Federal Open Market Committee announced last June, a policy has now been adopted with the approval of all members of the Federal Open Market Committee which is designed to place mild restrictions on the availability of reserves through open market operations. This policy, in view of the demands that are expected to be made upon the System to supply additional reserves during the next few weeks, should result in some tightening of the money market and a consequent modest firming of short-term rates.

The Committee was mindful, of course, of the Treasury's continuing problems of debt management, and gave particular attention to the refunding of the December maturities of bonds and certificates. The committee believes that changes in the economic situation since you announced in August that you intended to offer a Treasury note in connection with the December refundings, have confirmed the wisdom of that decision. It is the committee's view and recommendation that all of the December maturities, including the $519 million of certificates of indebtedness, be exchanged for a new note. This would provide a note issue of appropriate size, would rid the maturity schedule of an odd certificate issue, and would avoid the problem of pricing a one-year obligation at a time of changing short-term rates. At the same time, this last consideration suggests that the terms of the new note will have to be somewhat more liberal--at least on the side of the maturity of the note--than if these terms were fixed on the basis of recent markets. It is the committee's view at this time that a 1-3/8 per cent note with a maturity of about four years would meet the needs of the situation and improve the schedule of debt maturities.

We shall be glad to discuss with you, at your early convenience, the background of the committee's action and its suggestions regarding the December refunding.

Sincerely yours,

(Signed) Thomas B. McCabe

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