

*Confidential*

C  
O  
P  
Y

February 7, 1951

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

Dear John:

Following the meeting of the Federal Open Market Committee with the President on January 31, at which the President expressed the wish that the Committee provide support to the Government securities market during the emergency period, the Committee has considered what policies might be advisable in the immediate future. We should like to discuss with you at an early date a coordinated credit policy and debt management program which would assist in the highly important fight against inflation and improve public confidence in the market for Government securities. We would suggest as a basis for that discussion a program along the following lines:

(1) The Federal Reserve, for the present, would purchase the longest-term restricted Treasury bonds now outstanding in amounts necessary to prevent them from falling below par.

(2) If substantial Federal Reserve support of the longest-term restricted bond is required, you would be prepared to announce that at an appropriate time the Treasury would offer a longer-term bond with a coupon sufficiently attractive so that the bond would be accepted and held by investors. It would be announced that outstanding long-term restricted bonds would be exchangeable for the new bond and that the new bond would be offered for cash subscription by non-bank investors on a basis to be determined.

We should like to discuss with you possible features for the new bond that would remove or reduce the need for Federal Reserve support of the market in the future.

The Honorable John W. Snyder - 2

(3) For the purpose of restricting the creation of bank reserves through sales of short-term securities to the Federal Reserve, particularly by banks, the Committee would keep its purchases of such securities to the minimum amounts needed to maintain an orderly money market.

Under this policy, banks would be expected to obtain needed reserves primarily by borrowing from the Federal Reserve Banks. If demands for expansion of bank credit and bank reserves should continue, short-term interest rates presumably would adjust to a level around the discount rate.

This is the time to inaugurate the suggested program. It appears that the Treasury will not need any financing either for new funds or for refunding until next summer. It is important that rate adjustments be made before that time so that your large refunding and new money financing in the second half of this year may be carried out smoothly and successfully without undue support by the System.

Only through policies such as these can restraint on credit expansion be exercised in the degree that is so necessary to avoid continued erosion of the purchasing power of the dollar and to maintain the strength of our economy in this critical period. Both the Treasury and the Federal Reserve have a vital interest in this objective.

We hope that we may have an early opportunity of discussing this matter with you.

With warmest regards,

Sincerely,

(Signed) TOM

Thomas B. McCabe,  
Chairman.