THE SECRETARY OF THE TREASURY
WASHINGTON 25

Dear Tom:

I have your letter of October 13, 1948, in which you propose that: (1) short-term interest rates be raised in the near future, (2) the Treasury make pay-offs on Treasury bills at the rate of $100 million a week for a number of weeks, (3) the Treasury buy marketable securities for trust accounts, (4) the December 15 bond maturity be refunded in full, and (5) Treasury balances be drawn down to much lower levels than at present. Your letter indicates further that the Board will raise the discount rate to 1-3/4 percent as soon as the market rate on certificates has risen above 1-1/4 percent, and will continue to study the situation with respect to reserve requirements for the purpose of determining action which should be taken during the next few months.

I see no important objections to the proposals in your letter relating to bill pay-offs and to the December 15 bond refunding. However, it should be noted that it will not be necessary to reach a decision on the December 15 refunding until November 22 or thereabouts. As to bill pay-offs, the cash balance is not excessive and, accordingly, pay-offs can just as well be taken up a week at a time as they arise.

With respect to the Treasury's cash balances, bill pay-offs over a period of weeks will serve to reduce them. We shall be glad, however, to reduce the War Loan portion of our balances in an orderly fashion, if this continues to seem advisable.

My feelings as to the proposal concerning the purchase of restricted bonds for trust accounts is that trust funds should not be used for this purpose. The law provides, for example, that the Secretary of the Treasury shall be the Managing Trustee of the Federal Old-Age and Survivors Insurance Trust Fund. A procedure which would avoid any question as to the proper exercise of this fiduciary capacity would be to keep the operations of the Trust Fund from becoming involved in market support. Accordingly, the Fund should acquire marketable Government securities only on the occasion of original offering of such securities to the general public -- as was done during the War Loans -- or during periods when prices in the market are determined by normal demand and supply factors. On all other occasions, if trust fund operations are to be above criticism, investments should be confined to special issues bearing rates of interest set by the Congress.

With respect to your proposals for again increasing short-term interest rates -- with certificates going to as high as 1-1/2 percent and the discount rate to 1-3/4 percent -- I have given this matter careful attention, both as regards the general economic situation and the Government's fiscal and credit position. It appears to me that a move such as this would be unwise at this time. We should, it seems to me, permit the economy to finish its adjustments to the monetary measures which have already been taken; and, in the meantime, we should watch the situation carefully.

Sincerely yours,

John W. Snyder
Secretary of the Treasury

Honorable Thomas B. McCabe
Chairman, Federal Open Market Committee
Board of Governors of the
Federal Reserve System
Washington 25, D. C.