

The SPEAKER pro tempore (Mr. STEED). Under previous order of the House, the gentleman from New York (Mr. MULTER) is recognized for 30 minutes.

(Mr. MULTER asked and was given permission to extend his remarks and include extraneous matter.)

#### THE FEDERAL RESERVE SYSTEM

Mr. MULTER. Mr. Speaker, it is indeed unfortunate that in these crucial times carping criticism of public officials has become the order of the day. Much of it is directed at our President. Those who are engaging in this pastime, including newspaper and radio commentators, as well as many of our colleagues in both Houses of Congress, must become adept in dodging the boomerang effect of their wrong guessing. Thus far President Truman has been vindicated in every instance.

The latest attempt to stir up a controversy concerns the Federal Reserve Board and a recent visit by its Governors to the White House. Here again misinformation and perhaps some deliberate misinterpretation, instead of embarrassing the President, has merely injured public morale and lowered public confidence, not in the President but in Government bonds.

I am taking this time in order to clarify the atmosphere and to indicate to you and to the public that this Government will always stand behind its obligations. A Government obligation, whether it be a bond, a certificate, or a note, is a promise by the United States Treasury to pay, a promise that will always be lived up to as long as this Government stands. There is not and never will be any occasion for any holder of a United States obligation to take one penny less than the amount called for by the instrument, together with accrued interest in accordance with its provisions. In order to understand this situation, it is necessary that we know the applicable law and something about its operation. If more people took the time and trouble to acquaint themselves therewith, they would be less likely to rush into public

First, let me touch upon the economics of the situation, which are quite simple. If you had something to sell which your neighbor wished to buy and there was no currency available to either of you, instead of selling the item you would probably exchange the item you had for sale for an item that he had for sale. If, on the other hand, either of you had any currency available, instead of a bartering of goods the purchase would be consummated by delivering currency in exchange for goods. If there were 10 people, each of whom had something to sell, and there is currency available to only one of them and the others were unwilling to barter and each insisted upon currency for his goods, it is perfectly obvious that the trading would be extremely slow, each one in turn waiting to receive some of that currency. On the other hand, if each of those 10 persons in addition to having goods for sale had currency, the process of purchase and sale almost automatically is speeded up. If some of them had an overabundance of currency they would probably be freer in its disposal and there would be a rush for the goods of the others, increasing the demand and pushing the price up. Multiply that simple example billions of times and you will get a clearer picture of what is happening in the channels of trade today. Although our Constitution prohibits anyone other than the Federal Government from issuing money, the customs and practice of trade and banking have effectually circumvented that prohibition. Today every owner of a checking account effectually issues the equivalent of currency.

With more than 98 percent of all bank deposits guaranteed by the Federal Deposit Insurance Corporation, backed up with an additional three billion dollars of United States Treasury funds, the payment of every check issued, to the extent that the maker thereof has money in the bank, is guaranteed.

When we talk of money in circulation we necessarily mean not only currency but bank deposits which are easily convertible into the equivalent of currency by the simple expedient of drawing a check. That is what accounts for the fact that we can do a gross annual business in this country of \$260,000,000,000 to \$270,000,000,000, with so comparatively small an amount of actual currency in circulation.

We are told that today there is an overabundance of money in circulation which is responsible in part for the inflation of the times.

The Federal Reserve Board is charged by law with the duty to regulate the supply of money. That is not my opinion. That is the law. You may read it for yourself as set forth in the Federal Reserve Act. A very good summary of the law is given by the Federal Reserve Board itself in a book published by it entitled "The Federal Reserve System, Its Purposes and Functions." I quote from page 1 of that book as follows:

The principal purpose of the Federal Reserve is to regulate the supply, availability, and cost of money with a view to contributing to the maintenance of a high level of

employment, stable values, and a rising standard of living.

That means that the Federal Reserve Board is charged with the duty of contracting the supply of money by decreasing the money in circulation when there is an oversupply or too much money in circulation. On the other hand, when there is not enough money in circulation the duty devolves upon the Federal Reserve Board to make more money available to the public by expanding the supply.

The expansion and contraction of the supply of money is quite independent of the cost of money. You certainly do not control the expansion or contraction of the money supply by changing interest rates on Government obligations. The separation of these two functions—control of the money supply and fixing the interest rate on Government obligations—is recognized by our law which puts the two functions in two different agencies.

Neither the Federal Reserve Board, nor any Federal Reserve bank, nor any committee or subdivision of the Board or the System, has any right, power, or duty to establish the rate of interest or the terms or provisions of Government obligations. Again you need not take my word for it, but listen, if you will, to what the Federal Reserve Board says on the subject. I now quote from the same book, at page 105:

It is the responsibility of the Treasury Department to determine the character of obligations on which the Government will borrow and the rate of interest it will pay to investors. In these matters the Federal Reserve is consulted and makes recommendations, particularly with respect to how the war needs may be met with as little inflationary effect as possible. After policy decisions have been made, it is the duty of the Federal Reserve to see to it that the banking system is in a position to absorb any public debt essential for war expenses that is not purchased by investors other than banks.

If we now have clearly in mind the separation of the functions of the Federal Reserve Board and of the Secretary of the Treasury, and understand that both operations have a tremendous impact upon our national economy, we are ready to appraise the action of the President in consulting with the Secretary of the Treasury and with members of the Federal Reserve Board.

When the President sent for the members of the Board of Governors of the Federal Reserve System, he sent for them in order to consult with them and with the Secretary of the Treasury in order that the Treasury Department, as is required by law, could determine what should be the interest rates on Government obligations.

There was no attempt to pressure the Federal Reserve Board into doing anything or not doing anything. There was no attempt on the part of the President or the Secretary of the Treasury to tell the Federal Reserve Board how to manage their affairs.

The efforts by some newspaper and radio commentators, and yes, some Members of both Houses, to confuse the issue and to condemn the President as

though he were attempting to usurp the powers of the Federal Reserve Board is not only contrary to fact, but is indecent and invidious.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. MULTER. I yield.

Mr. GROSS. In reading the first quotation from that book, did you say it is the duty of the Federal Reserve Board to regulate the cost of money?

Mr. MULTER. Yes, sir.

Mr. GROSS. Not the value?

Mr. MULTER. No, sir; the cost of money.

That, of course, means the rate of interest you pay for borrowed money, including the rate of interest on private and Government bonds. That duty to fix the interest rate on Government bonds is vested by law in the Secretary of the Treasury, and no one else but he has the right to fix that rate.

Once he fixes it, the duty is then imposed upon the Federal Reserve Board to maintain a market for those Government securities. Bear in mind, if you will, please, that a Government security—any security of our Government, whether it is a note or a bond or a certificate of our Government should at all times be treated the same as the dollar bill issued by our Government. If ever the time comes when you cannot interchange the dollar bill for the Government obligation we will be in a sorry way in this country.

We are told by some people that it is necessary to increase the interest rate on Government bonds because there is too much money in circulation. I think they are wrong. But right or wrong it was important for the President to be fully informed on the subject.

It must be obvious that the President very properly consulted the Federal Reserve Board on this important problem.

At this conference the question was also raised about the Federal Reserve Board's policy of supporting the market in Government securities.

Now let us see what the situation is with reference to that.

First, let me tell you what the policy of the Federal Reserve Board has been with reference to Government obligations since 1941. Again, I quote, not from any newspaper, but from the Federal Reserve Board itself. In its January 1942 bulletin, the Federal Reserve Board said:

Continuing the policy which was announced following the outbreak of war in Europe, Federal Reserve banks stand ready to advance funds on United States Government securities at par.

They said "at par"—dollar for dollar.

They say you may have to change that now because there is too much money in circulation. During each of the years 1945 to and including 1948, there was more money in circulation by almost a billion dollars than there was in 1949 or in 1950 or than there is today. For verification, see page 179 of the February 1951 Federal Reserve Bulletin released February 26, 1951. During all that time, as it has consistently done since 1941, the Federal Reserve Board continued to an-

nounce its policy of pegging the Government securities market so that any time a Government obligation is offered anywhere it will always bring at least par, and never less. So the amount of money in circulation has not and should not affect the necessity for the Federal Reserve to buy Government obligations at not less than par at all times.

Now, how is the Federal Reserve Board to exercise its control powers—to expand and contract the money in circulation if they may not and must not do it by increasing interest rates on Government obligations, and if at the same time they must support the Government securities market at par?

Congress requires the Federal Reserve Board to exercise its control powers by establishing, expanding, and contracting the reserves required of the banking system. As of today they have reached the limit of that power. As of today they have required of the banks as high reserves as the law permits. If they need any further power, and it is my humble opinion that they do—if credit is not to expand unreasonably—this Congress must extend the Board's power to require of the banks additional reserves so as to control the credit expansion and prevent it from getting out of bounds. In that way they can prevent unnecessary or burdensome increases in the surplus of money in circulation.

The controversy between the President and the Federal Reserve Board, if any controversy exists, is not over who has what power.

I did not attend that conference, but I have read the statements of those who were there. You may judge for yourself what occurred if you take the time to read the letter of Hon. J. K. Vardaman, a member of the Board of Governors of the Federal Reserve System, which I append hereto with his memorandum of February 16, 1951.

Obviously this was a misunderstanding. It was not by the President; nor was it as to who had what power. The Board was called there to consult with the President and the Secretary of the Treasury on the question of interest rates that shall hereafter be charged on new securities. The Federal Reserve Board took the position that the rates should be higher. At least, some of the governors did. I do not agree with them.

Some of the governors took the position that by increasing the rate of interest on the Government bonds you would contract the credit that is causing an overexpansion of money in circulation. I for one do not believe that that result would follow.

Regardless of who may be right as to that, the interest rate—no matter what it may be—does not in the slightest affect the necessity for supporting the Government bond market.

Before passing that point, however, let me stress that no one can deny that by increasing the interest rate on Government securities you necessarily put more money in circulation and at the same time make the Government pay more for financing its debt, and require the taxpayers to assume a larger burden to meet

those increased interest payments. Bear in mind, as the Federal Reserve Board tells us, as every banker and economist tells us, every dollar you release into credit channels multiplies by six times the money in circulation.

The controversy, if we call it such, results from the desire of some of the Federal Reserve Board members to withdraw the system's support at par of our Government's securities.

That in my opinion would be a terribly disastrous step. It would at one fell swoop destroy public confidence in our financial stability and would not help one bit in the fight against inflation. Since 1941 the Federal Reserve Board has consistently followed a policy which should not be changed now.

In its annual report for 1949 the Board said:

The policy of maintaining orderly conditions in the Government security market, and the confidence of investors in Government bonds, will be continued. Under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased.

Now some of this same Board's members say that credit has expanded unduly and must be contracted.

Granted.

But if in 1949 "a relatively fixed pattern of rates"—a pegged or supported market—was preventing the expansion of credit, how can you now contract credit by a free market. If it was then undesirable to fix the pattern of rates because that froze credits, it should be now desirable to fix the pattern of rates in order to freeze credits which we are told are increasing dangerously fast.

It seems to me that some one is pressuring for a free market in "governments" to break the price under par in order to get a higher interest rate.

If the Board needs additional powers to control credit, and I believe that it does, it should frankly report that fact to Congress and ask for the needed power.

Last year the President in a special message to the Congress asked that effective credit controls be enacted. I urged in the House Banking and Currency Committee and on the floor that we must control all credits not merely consumer and real estate credits.

Unfortunately, provisions for control of bank credit were not enacted. The only way that bank credit can be controlled today is through the Federal Reserve Board's authority to increase bank reserves. That authority is presently exhausted. This Congress must now make up its mind to do one of two things if we are to meet this situation and correct it before it gets out of hand: We will either enact provisions similar to those stricken out of the Defense Production Act of 1950 and give the President or whomsoever he may delegate the power to control credit, bank credit, I am talking of now, or we must increase the authority on the part of the Federal Reserve Board so that it can raise bank reserves and thereby control over-extension of credit.

President Truman has clarified the situation much better than I could do by a memorandum which he delivered at the White House on February 26, 1951, to the Chairman of the Board of Governors of the Federal Reserve Board, to the Director of the Office of Defense Mobilization, to the Under-Secretary of the Treasury acting in the absence of the Secretary who was ill, and to others who attended that conference. I commend it to your attention. It is appended to my remarks.

The following is Governor Vardaman's memorandum and letter:

WASHINGTON, D. C., February 16, 1951.  
Memorandum from J. K. Vardaman, member of the Board of Governors, Federal Reserve System.

On the 12th instant I received from United States Senator JOHN W. BRICKER, of Ohio, a letter dated the 7th in which he comments on my public statement on February 5. Inasmuch as Senator BRICKER's letter was official and published in the CONGRESSIONAL RECORD, I am writing an open letter in answer rather than a private letter in order to reply to certain inferences in the Senator's letter.

Attached is a copy of Senator BRICKER's letter to me and a copy of my reply dated February 15.

J. K. V.

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM,  
February 15, 1951.

DEAR SENATOR BRICKER: Your letter of the 7th is acknowledged with thanks. I particularly appreciate your having taken time to read my statement, although the connotation of "totalitarianism" which you place on it surprises me almost as much as if you suspected me of cannibalism, for instance. That interpretation, and fear that you may have drawn really serious conclusions just as foreign to my intent, make it necessary for me to make myself more clear than I evidently did in my statement. Therefore, I will reply to each paragraph of your letter in detail.

In my statement of February 5 I said that in my opinion Governor Evans' account of the conference between the President and the Federal Open Market Committee was correct as to what was actually said. But I expressed the thought that regardless of the words spoken the President was allowed to leave the conference with the erroneous belief that the committee would support the Government's program. I understand that some other members of the Board had the same thought; and only one member, so far as I know, has denied that the President was allowed to leave the conference with a false impression.

You are correct in interpreting my statement to indicate my belief that this Board should support the Government's program as officially promulgated on January the 18th by the Secretary of the Treasury, the spokesman for the Government in this field. My advocacy of such support is based upon both legal and economic reasons. However, my statement did not indicate approval or disapproval of the Government's plan, nor did I discuss its economic advantages or weaknesses. I simply say that since this Board has absolutely no statutory authority to alter or to cancel the Government's debt-financing plan, and has not even the remotest suggestion of statutory authority to initiate a substitute plan, it should support the Government's program until such time as the Congress clarifies the situation by legislative enactment which will either—

1. Give the Board authority in the area of public-debt management; or

2. Give the Board more effective control of investments and reserves of banks and insurance companies and other depositaries, lending agencies, and institutions whose operations materially affect the national credit structure; or

3. Relieve the Board of some of its responsibility for credit control.

The Federal Reserve has supported the Government bond market at arbitrary price levels whenever necessary for the past 9 years. While the Board has repeatedly reported to Congress the dilemma which confronts it, so far as I know, the Board has never asked the Congress for relief from its implied obligation to continue this self-imposed practice, and the Congress has not seen fit to direct the Federal Reserve System to stop this practice. Failure of the System at this time to give the same degree of support to the Government plan, and the withdrawal of this arbitrary price support, would probably result in a chaotic Government bond market and a decline in the price of long-time Government bonds to some figure below par. Just where the price would go is anybody's guess, but any material decline under present circumstances might result in some sort of a buying panic that would further decrease the purchasing power of the dollar.

If I may be permitted a question at this point: Would you as a citizen or as a United States Senator recommend that the System withdraw its arbitrary support from the Government bond market and allow the bonds to go below par?

If you will read again my statement, you may consider it less amazing if you note that I did not advocate waiver of any actual statutory responsibility, authority, or prerogative. What I did advocate was that we do not now raise a question regarding prerogatives and authority which this Board has never had nor claimed to have; and which, if they ever existed by congressional intent or otherwise, have most probably been waived and forfeited by this Board's actions or lack of action.

In this connection it should be borne in mind that the Board issued a public statement on December 8, 1941, which said, in part:

"The System is prepared to use its powers to assure that an ample supply of funds is available at all times for financing the war effort and to exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the Government's requirements."

Since December 1941 the Federal Reserve has consistently and without exception supported the United States Government bond market at arbitrary price levels whenever it considered such support advisable or necessary. The System is currently following the same course. Under present conditions and in view of the actions of the Board extending over a period of more than 9 years it seems to me that any statutory prerogatives in the premises, if they ever existed, have been forfeited by the precedent set by the Board itself.

You might be interested in knowing that for more than a year I have advocated, and I believe some other members of the Board have done likewise (but I speak only for myself), that conversations with the Secretary of the Treasury and action by the Board be initiated with a view to reducing to par the arbitrary price on long-time Government bonds. I could not then see any justification for supporting those bonds at high premiums, while at the same time owners of E savings bonds, mostly small individual savers, were penalized by loss of some interest if their bonds were cashed before maturity.

Also I was afraid that if we continued such high level arbitrary support the market might become frozen into that pattern by circumstances and events which would make it inadvisable or impossible to change the arbitrary price without disrupting our economy. The Board has not acted to free itself of this shackle to a pegged price which the Board voluntarily put on itself in December 1941 and has consistently worn since that date. Therefore, the System, which is a creature of the Congress, now finds itself in a situation where public debt management, an area in which the Board has no authority, is having a material effect on credit control, an area in which the Board does have statutory authority.

The dilemma is serious and warrants the most careful and constructive consideration by every thoughtful citizen, and especially you and your colleagues in the Congress. And until the Congress acts I do not see any constructive course of action left open to this Board other than to carry on the same general policy it has followed during the past 9 years, because the Government's financing program has been officially promulgated and stands today as the only financing program which the Government has. If we do not support that program, what are we to do, since we have no authority to cancel or change it and no authority to initiate one of our own?

And here again let me emphasize that I am speaking in this letter only for myself.

My statement does not indicate in any way that I am willing to waive, nor did I advocate that the Board waive, any statutory authority or prerogative which the Board as such may have or which the individual Board members may have under the law or under their oaths of office. Educated as a lawyer and having enjoyed more than 20 years' successful experience as a practicing attorney, banker, and businessman, the law is very real to me. I have always believed that our Constitution with its implementing framework of statutory laws is the most sacred and valuable asset which we as a Nation possess. And, incidentally, I have spent more than 6 years in the combat forces of our amphibious Army and Navy defending that belief. In civil life my most serious disagreements with friends in public office have been based on my thought that their actions were in some way interfering with the operation and perpetuation of our constitutional Republic. In view of this well-known official and personal record, your inference that I am a sponsor of totalitarianism seems to me to be less than justified.

As to this Board's accountability to the Congress the minutes of the Board should show that during my nearly 5 years' membership I have emphasized on several occasions my firm belief that we were accountable to the Congress and to no one else. From time to time and particularly during recent years we here in the Board have had more than one discussion of this subject, and I have been critical whenever one of my colleagues acted in any way which I felt might jeopardize our limited right to freedom of action as provided under present law.

The admonition in the last paragraph of your letter is cordially and wholeheartedly accepted and I assure you in your official position as a United States Senator that as long as I serve as a member of the Board I will not willingly waive my responsibilities under the statutes or under my oath of office.

Let me repeat, the law is silent as to the Federal Reserve's authority in the area of debt management, and on the other hand the law is quite specific in placing responsibility for management of the public debt in the hands of the Secretary of the Treasury.

Therefore, I feel that the welfare of the Nation would be better served if this Board continued to support the official Government financing program just as it has since 1941 and that the Board should immediately approach the Congress with an explanation of its position and ask for such clarification as the Congress might care to make in the premises. To do otherwise, that is, to withdraw the arbitrary support of Government bond prices which we have maintained continuously during the past decade, could result in near panic in the Government bond market which might easily depress Government bond prices to some unknown level. On the other hand if we continue to give the Government financing program the Board's customary support until the Congress shall determine otherwise it is possible that the present pressing necessity for arbitrary support of the market might be considerably lessened or even eliminated during the coming months.

Again, please accept my thanks for writing to me as fully as you have. And I would welcome an opportunity to discuss these grave questions with you personally, or with any of your colleagues who may take the problem under advisement.

With best wishes, I am,  
Sincerely,

J. K. VARDAMAN, Jr.

The following is President Truman's memorandum:

TEXT OF WHITE HOUSE STATEMENT ON FEDERAL SECURITIES AND CREDIT

The President met this morning with the following:

Mr. Thomas McCabe, Chairman, Board of Governors, Federal Reserve System.

Mr. Charles Wilson, Director, Office of Defense Mobilization.

Mr. Edward Foley, Under Secretary of the Treasury.

Mr. Charles Murphy, special counsel to the President.

The Council of Economic Advisers, Mr. Leon H. Keyserling, Chairman; Mr. John D. Clark, and Mr. Roy Blough.

Mr. William McChesney Martin, Assistant Secretary of Treasury.

Mr. Aflan Sproul, vice chairman, Federal Reserve Open Market Committee.

Mr. Harry A. McDonald, Chairman, Securities and Exchange Commission.

The President read the attached memorandum to the group and there was a general discussion of the subject covered by the memorandum. The President did not ask any of those present for any commitments on the subjects under discussion, but expressed the hope that they would go ahead speedily with the study requested.

Mr. Wilson expressed the hope that a report could be made to the President within 10 days or 2 weeks.

"Memorandum for: The Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Director of Defense Mobilization, the Chairman of Council of Economic Advisers.

"I have been much concerned with the problem of reconciling two objectives: First, the need to maintain stability in the Government security market and full confidence in the public credit of the United States, and, second, the need to restrain private credit expansion at this time. How to reconcile these two objectives is an important facet of the complex problem of controlling inflation during a defense emergency which requires the full use of our economic resources."

TWO OBJECTIVES NOTED

"It would be relatively simple to restrain private credit if that were our only objective,

or to maintain stability in the Government security market if that were our only objective. But in the current situation, both objectives must be achieved within the framework of a complete and consistent economic program.

"We must maintain a stable market for the very large financing operations of the Government. At the same time, we must maintain flexible methods of dealing with private credit in order to fight inflation. We must impose restraints upon nonessential private lending and investment. At the same time, we must maintain the lending and credit facilities which are necessary to expand the industrial base for a constant build-up of our total economic strength.

"Instead of fighting inflation by the traditional method of directing controls toward reducing the over-all level of employment and productive activity, a defense emergency imposes the harder task of fighting inflation while striving to expand both employment and production above what would be regarded as maximum levels in normal peacetime.

"What we do about private credit expansion and about the Government securities market is, of course, only a part of the problem that confronts us. A successful program for achieving production growth and economic stability in these critical times must be based upon such broader considerations."

#### ATTACK ON ECONOMIC PROBLEMS

"We must make a unified, consistent, and comprehensive attack upon our economic problems all along the line. Our program must include, in proper proportion, production expansion policy, manpower policy, tax policy, credit policy, debt management, and monetary policy, and a wide range of direct and indirect controls over materials, prices, and wages. All of these policies are necessary; each of them must be used in harmony with the rest; none must be used in ways that nullify others.

"We have been striving in this emergency to develop such a unified program in the public interest. Much progress has already been made, both on the production front and on the anti-inflation front. Many peacetime activities of Government, including the activities of lending and financing agencies, have been pruned down.

"Cut-backs of civilian supplies and allocations of essential materials have been successfully undertaken. Important expansion programs for basic materials and productive capacity needed in the defense effort have been gotten under way. Price and wage controls have been initiated. Restraints on consumer and real estate credit have been applied. Large tax increases have been enacted, and additional tax proposals are now pending. In all these fields further action is being planned and will be taken as needed.

"One outstanding problem which has thus far not been solved to our complete satisfaction is that of reconciling the policies concerning public debt management and private credit control. In considering the difficulty of this problem, we should not be discouraged because an ideal solution has not yet been found. The essence of this problem is to reconcile two important objectives, neither of which can be sacrificed."

#### CONFIDENCE IN PUBLIC CREDIT

"On the one hand, we must maintain stability in the Government security market and confidence in the public credit of the United States. This is important at all times. It is imperative now. We shall have to refinance the billions of dollars of Government securities which will come due later this year. We shall have to borrow billions of dollars to finance the defense effort during the second half of this calendar year, first assuming the early enactment of large additional taxes, because of

the seasonal nature of tax receipts which concentrate collections in the first half of the year, and because of the inevitable lag between the imposition of new taxes and their collection by the Treasury. Such huge financial operations can be carried out successfully only if there is full confidence in the public credit of the United States based upon a stable securities market.

"On the other hand, we must curb the expansion of private loans, not only by the banking system but also by financial institutions of all types, which would add to inflationary pressures. This type of inflationary pressure must be stopped, to the greatest extent consistent with the defense effort and the achievement of its production goals.

"The maintenance of stability in the Government securities market necessarily limits substantially the extent to which changes in the interest rate can be used in an attempt to curb private credit expansion. Because of this fact, much of the discussion of this problem has centered around the question of which is to be sacrificed—stability in the Government securities market or control of private credit expansion. I am firmly convinced that this is an erroneous statement of the problem. We need not sacrifice either.

Changing the interest rate is only one of several methods to be considered for curbing credit expansion. Through careful consideration of a much wider change of methods, I believe we can achieve a sound reconciliation in the national interest between maintaining stability and confidence in public credit operations and restraining expansion of inflationary private credit.

"We have effective agencies for considering this problem and arriving at a proper solution."

#### REVIEWS STEPS TAKEN

"Over the years, a number of important steps have been taken toward developing effective machinery for consistent and comprehensive national economic policies. One of the earliest steps in this century was the establishment of the Federal Reserve System before World War I. At that time, under far simpler conditions than those now confronting us, the Federal Reserve System was regarded as the main and central organ for economic stabilization.

"After World War II, in a much more complex economic situation and a much more complex framework of governmental activities affecting the economy, the Council of Economic Advisers was established by the Congress under the Employment Act of 1946 to advise the President and help prepare reports to the Congress concerning how all major economic policies might be combined to promote our economic strength and health. Still more recently, in the current defense emergency, the Office of Defense Mobilization has been established to coordinate and direct operations in the mobilization effort. In addition, some of the established departments, such as the Treasury Department, have always performed economic functions which go beyond specialized problems and affect the whole economy.

"Consequently, I am requesting the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Director of Defense Mobilization, and the Chairman of the Council of Economic Advisers to study ways and means to provide the necessary restraint on private credit expansion and at the same time to make it possible to maintain stability in the market for Government securities. While this study is under way, I hope that no attempt will be made to change the interest-rate pattern, so that stability in the Government security market will be maintained.

"Among other things, I ask that you consider specifically the desirability of meas-

ures (1) to limit private lending through voluntary actions by private groups; through Government-sponsored voluntary actions such as was done in a narrow field by the Capital Issue Committee of World War I, and through direct Government controls; and (2) to provide the Federal Reserve System with powers to impose additional reserve requirements on banks."

#### PRESENT EFFORTS CITED

"Under the first heading, I am sure that you are aware of the efforts that are already under way by the American Bankers Association, the Investment Bankers Association, and the Life Insurance Association. I want you to consider the desirability of this or other kinds of private voluntary action in bringing about restraint on the part of lenders and borrowers.

"I should like you to consider also the establishment of a committee similar to the Capital Issues Committee of World War I, but operating in a broader area. The objectives of such a committee would be to prevail upon borrowers to reduce their spending and to curtail their borrowing, and to prevail upon lenders to limit their lending. The activities of this committee could be correlated with those of the defense agencies under Mr. Wilson with the objective of curtailing unnecessary uses of essential materials.

"Furthermore, I should like you to consider the necessity and feasibility of using the powers provided in the Emergency Banking Act of 1933 to curtail lending by member banks of the Federal Reserve System. These powers are vested in the Secretary of the Treasury subject to my approval. The Secretary could by regulation delegate the administration of this program to the 12 Federal Reserve banks, each to act in its own Federal Reserve District under some flexible procedure. The program could be extended to institutions other than member banks, if desired, by using the powers provided by the Trading With the Enemy Act."

#### RECOMMENDATIONS TO CONGRESS

"Under the second heading, you will recall the recommendation I made to the Congress a number of times in recent years to provide additional authority for the Federal Reserve System to establish bank-reserve requirements. I should like you to consider the desirability of making that or another recommendation with the same general purpose at the present time.

"You are all aware of the importance of this problem, and the need for an early resolution. I should like your study to proceed as rapidly as possible in order that I may receive your recommendations at a very early date. I am asking the Director of Defense Mobilization to arrange for calling this group together at mutually convenient times.

"At the same time that we are working to solve this problem of maintaining the stability of the Government-securities market and restraining private-credit expansion, we shall, of course, continue vigorously to review Government lending and loan guarantee operations. Since the middle of last year, we have taken a series of steps to curtail such operations and limit them to amounts needed in this defense period. I am directing the agencies concerned to report to me by March 15 on the nature and extent of their current lending and loan guarantee activities, so that these operations may again be reviewed as part of our over-all anti-inflationary program.

"HARRY S. TRUMAN."

#### SPECIAL ORDER

The SPEAKER pro tempore. Under the previous order of the House, the gentlewoman from Utah [Mrs. BOSONE] is recognized for 15 minutes.