

The full Federal Open Market Committee met with President Truman in the Cabinet Room shortly after 4:00 p.m. on Wednesday, January 31, 1951. Chairman McCabe had met with the President in his office a few minutes earlier and came into the Cabinet Room with him. The President shook hands cordially with everyone present.

The President stated that during the past few weeks he had met with many groups in Government because he wanted them to know the seriousness of the present emergency and to ask for their full assistance and cooperation. He stated that the present emergency is the greatest this country has ever faced, including the two World Wars and all the preceding wars.

He gave a brief sketch of the difficulty of dealing with the Russians and said they had broken 32 parts of the agreements entered into at Cairo, Potsdam, and Yalta. He mentioned that these agreements, among other things, provided for a unified Germany, a unified Poland, cooperation with Nationalist China, and a unified Korea, which would select its own Government by democratic process. He stated that the Americans provided Nationalist China with about 3 1/2 billion dollars of war equipment, much of which Chinese generals and other leaders disposed of to the Communist forces. He characterized the Nationalists as being the most corrupt government in history.

He stated that General Eisenhower's report to the Cabinet today, after his visit to 12 North Atlantic countries, emphasized the seriousness of the situation but that the General believed Europe has the will

to re-arm and resist with our help. He mentioned some figures about the number of troops involved, in support of his statement that the emergency is very serious indeed.

The President emphasized that we must combat Communist influence on many fronts. He said one way to do this is to maintain confidence in the Government's credit and in Government securities. He felt that if people lose confidence in Government securities all we hope to gain from our military mobilization, and war if need be, might be jeopardized. He recalled his wartime experience when he bought Liberty bonds out of his soldier's pay. When he returned from France and had to sell his bonds to buy clothes and other civilian things, he got only \$80 or a little more for his hundred dollar bonds and later they were run up to \$125. He said he did not want the people who hold our bonds now to have done to them what was done to him.

He stated that most politicians would not ask for higher taxes prior to election but that he had vetoed a reduction in taxes before election and won anyway. If it had not been for that irresponsible reduction in taxes, he said, the Federal budget would have been in balance all these years. He stated that he wanted to levy all the taxes necessary to pay the cost of the defense effort, which he felt would be between 100 and 120 billion dollars over the next few years. He stated that he had just met with the Congressional leaders and asked for 16 1/2 billion dollars in taxes and that he expected to get this in two bites -- a quick tax bill yielding about 10 billion and the other 6 1/2 billion to come after more careful study. He wanted us to understand that he is doing all he can on the tax front to combat inflation.

The President gave each member of the Committee a copy of "The Federal Budget in Brief." He expressed the opinion that the budget had been pared to an irreducible minimum. He said that he had participated in the preparation of 16 budgets and felt he was competent to judge and understand them. Maybe something could be cut out but it would make a hole in the defense effort and that he would not do.

The President said that he felt we had done a good job and wanted us to continue to do a good job in maintaining the financial structure of the country. He further stated that he had had a number of conferences with our Chairman but this was his first opportunity to meet and talk with the entire Committee. He made no mention of recent differences of opinion with the Treasury.

Chairman McCabe thanked the President for receiving us and indicated that we all share his concern for the maintenance of the Government credit. He stated that although the support of the Government bond market was something in the nature of an extracurricular activity for the Federal Open Market Committee, it had performed this service for the past nine years or more and had done a very good job. He stated that the Committee had always carefully weighed its responsibilities to the Government and to the general economy as well and that these are statutory responsibilities which it could not assign, if it would.

The President interjected that he was familiar with that, but wanted the Committee to continue its good work during the defense period. He emphasized that he was speaking of the defense period only.

Chairman McCabe referred to the fact that in the last few days the Government bond market had gone up a few thirty-seconds and then had come down a few thirty-seconds, which he considered to be a proper market operational technique. The President said he would not undertake to discuss details of that kind, that he was principally concerned with maintaining the confidence of the public in Government securities as one way of presenting a unified front against Communism. He did not indicate exactly the details of what he had in mind, but he reiterated, that we should do everything possible to maintain confidence in the Government securities market. The Chairman outlined concisely some of the responsibilities with which we were charged, principally to promote stability in the economy by regulating the volume, cost and availability of money, keeping in mind at all times the best interests of the whole economy. The Chairman turned to the members of the Federal Open Market Committee and said the President could depend on everyone -- the group to do what they could to protect the Government credit.

Chairman McCabe stated that with a group of men such as those composing the Federal Open Market Committee, there would, of course, be differences of opinion as to just how the best results could be obtained. The President nodded, indicating that he understood this. The Chairman suggested the following procedure -- that we consult frequently with the Secretary of the Treasury, giving him our views at all times and presenting our point of view strongly, and that by every means possible we try to reach an agreement. If this could not be accomplished, he (the Chairman) would like to discuss the matter with the President. The President said this was entirely satisfactory and closed the meeting on the same note

as it was opened -- namely, that he wanted us to do everything possible to maintain confidence in the credit of the Government and in the Government securities market and to support the President of the United States in achieving this end.

The Chairman stated at the end of the meeting that he presumed that any statement concerning this meeting would be made by the President. The President said he would have no objection to our making a statement and thought that it might be a good thing. The Chairman then asked him what would be the general nature of the statement and he said it can be said that we discussed the general emergency situation, the defense effort, budget and taxes, and that he had stressed the need for public confidence in the Government's credit. He said further that he would be talking to the press the next morning and that he would be prepared to answer questions that might be raised. Since the President indicated that he would be discussing it with the press, the Chairman said he felt it would be best for us not to issue any statement to the press at this time. The President did not seem to be particularly concerned about whether or not a statement was issued. The press conference scheduled for the following morning was canceled because of General Eisenhower's appearance at the Capitol. The White House press secretary gave the press the following statement which appeared on the ticker about noontime:

"Washn - A P - The Federal Reserve Board has pledged its support to President Truman to maintain the stability of Government securities as long as the emergency lasts.

"White House press secretary Joseph Short announced this today, saying there have been reports of differences of opinion between the Treasury and the Federal Reserve Board.

"This is to quiet those rumors - Short said.

"Members of the Federal Reserve Board conferred with Mr. Truman yesterday - Secretary of the Treasury Snyder did not attend the meeting."

A little later the following statement appeared on the ticker:

"Washn - A P - A Treasury spokesman said the White House announcement means the market for Government securities will be stabilized at present levels and that these levels will be maintained during the present emergency."