BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

DETERMINED TO BE AN ADMINISTRATIVE MARKING

~~CONFIDENTIAL~~

AW 1-3-7

May 20, 1949.

TO - Mr. Connelly, Secretary to the President

FROM - Mr. Thurston, Assistant to the Board

Chairman McCabe asked me to give you the attached memorandums on two Reserve Board credit bills in case the President wishes to make some use of them when he meets with the Congressional leaders Monday. The Board would like to see these measures extended at this session, but they are frankly standby proposals and, therefore, we cannot claim a first priority for them.

Chairman McCabe wishes me to say that he does not want to take advantage of the President's loyal support and fighting spirit to insist on these measures at the expense of other more important bills in his legislative program.

ET.

Attachments

May 23, 1949.

FEDERAL RESERVE LEGISLATION

So long as I am President I am going to do everything in my power to preserve the public credit of the United States, to maintain the value of its currency, and to support a sound financial situation in this country, which has become the pivot on which the economy of the free world depends. It is for these reasons that I have given my consistent and wholehearted support to the request of the Board of Governors of the Federal Reserve System, now before Congress, for a continuation of their temporary authority to regulate the terms of consumer instalment credit, and to require insured commercial banks to maintain supplemental reserves at the Federal Reserve Banks. The one would put a floor under excessive competition in terms on which consumer durable goods are sold. The other asks only for minimum protection, enough to tide us over in case of emergency, pending a long overdue overhauling of bank reserve requirements. Without it, we would find it difficult to maintain support of the Government bond market if any check should be needed on overexpansion of bank credit.

Except for extension of the latter authority to all insured banks, these are merely a continuation of authorities granted by Congress last August. They have been administered in the interval flexibly and wisely. The Board of Governors has demonstrated that it is deeply responsible to the public interest and quick to respond to changes in the tempo of the financial system and of the economy. They have been sensitive to the operating problems of member banks and have found that the extension of supplemental reserve requirements to member banks alone have placed these banks at a competitive disadvantage as compared with nonmember banks. I have therefore requested Congress, in extending these authorities, to make them applicable to all commercial banks that enjoy the advantage of Federal insurance of deposits. These measures are, of course, controversial, and they will be fought hard and bitterly by a great majority of bankers, especially by the nonmember insured banks.

The Federal Reserve System is an operating institution to which Congress has delegated the responsibility for the continued maintenance of sound monetary and credit conditions. It is charged with the dual load either of restraining inflationary financial pressures or of cushioning deflationary pressures, whichever may be dominant at any moment in the economy. It must be quick to respond

to changes in the economy and it must have elbow room to make that response effective. Utterly new conditions have emerged as a result of the war that have imposed serious limitations on its effective authorities. We have an unprecedented public debt, and an unprecedented potential for excessive expansion of private consumer debt.

Comprehensive surveys, sponsored by the Reserve System, show clearly that the consuming public overwhelmingly favors some curb on instalment debt -- fully four to one. Sellers in affected lines are divided, with apparently more against than for. Some big trade associations are split down the middle. The opponents are, of course, vociferous; the supporters for the most part do not make their voices heard. This regulation should be given a fair peacetime trial. We have urged that Congress extend it from June 30 for two years, a minimum test period. I feel most emphatically that it is in the public interest.

Last year, before Congress enacted the present temporary authorities, the Federal Reserve System was at or near the margin of its powers to take restraining action against the acute inflationary pressures that prevailed. Essential action, required in the public interest, had to be delayed until Congress could repair the deficiency in a special session. The Board of Governors have since relaxed those restraints, and, in fact, have stated that they expect to relax them further if the situation requires.

Unlike last August, I did not ask Congress to pass this legislation because I expected that it would be put to immediate use. I asked solely for a continuation of these powers because I am unwilling that a public institution charged with the heavy responsibilities with which we have charged the Board of Governors of the Federal Reserve System should lack elbow room to operate in either direction as conditions change.

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