

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

Confidential

February 8, 1951

Memorandum to Mr. Charles Murphy

Subject: Comments on material transmitted to me today.

I am returning herewith the material you sent me today, including the original of the letter to the President, dated February 7.

Transmitted also is a proposed reply, as a possible suggestion, in which Mr. Clark concurs. *Mr Blough is away.*


Leon H. Keyserling
Chairman

Dear Tom:

I have received your letter of February 7, and appreciate the spirit in which it is written. I want to answer you with equal cordiality, equal frankness, and equal determination to find the right solution in the best interests of the people of the United States in these critical times.

Your letter in effect is a strong restatement of a position of long standing within the Federal Reserve System, concerning the most effective way to fight inflation and to maintain confidence in the integrity of the dollar and in Government securities. In certain respects, this position is not in accord as to the best methods - although the objective is the same - with that taken by the Treasury, although the differences and their significance have been magnified in some circles.

The Federal Reserve System and the Treasury both have enormous responsibilities. Neither is subject to the control of the other. Because they necessarily deal with overlapping problems, there have been times, and there will again be times, when equally honorable and competent men will arrive at differing solutions of common problems. These differences need to be reconciled.

That is what ^{I have attempted to bring about} [has occurred] in this instance. The effort toward reconciliation, through discussion and accommodation, has been going forward for a period of years. Some progress has been made, but it is not yet complete or satisfactory to any of the parties concerned. [Under

these circumstances, the American public rightfully expects that responsibility must exist somewhere for the settlement of differences between two agencies whose actions greatly affect the public interest. The differences in this case involve discretionary matters which it would be extremely difficult to settle by legislation. In any event, and I think properly, the Congress has not undertaken to settle them by legislation, although it has had ample knowledge of their existence for a long time. Consequently, in the very nature of things under our system of Government, a responsibility is imposed upon the President.]

I appreciate fully the deep responsibility which the Federal Reserve System feels for maintaining the soundness of our economic system and the stability of the dollar. In exchange, the Federal Reserve System, I am sure, appreciates the fact that this responsibility also falls upon the President in an even broader sense. It is imposed upon him by the Constitution, and by the people of the United States. It is augmented by the existence of a national emergency.

The Congress has on numerous occasions, far more recent than the establishment of the Federal Reserve System, recognized and imposed upon the President broad responsibility for integrating national economic policies, for reconciling conflicts, and for developing a unified program to stabilize and protect our economy. This responsibility is stated without qualification in the Employment Act of 1946, which does not exclude fiscal and monetary policy from its scope. It is recognized in legislation, enacted within the past year, manifesting the intent of the Congress that,

particularly in a grave national emergency, there shall be coordinated and consistent development and administration of national economic policies.

In seeking this objective, the Congress has not exempted the Federal Reserve System. The more importance one attaches to the policies developed by the System, and I attach great importance to them, the more obvious it becomes that these policies cannot be conducted in isolation while all other national economic policies - over such important matters as prices, wages, farm products, business investment, and construction of homes [for the people] - are brought under the requirements of a common program in the national interest.

Mindful of ^{my} any responsibilities to the American people, I have on more than one occasion undertaken to assist in the reconciliation of the differences between your group and the Treasury, and to make known my views. There is no substantial misunderstanding or ambiguity of meaning among the parties concerned, despite some press stories to the contrary. The Federal Reserve System and the Treasury know each others views in this matter, and both know my view.

My view is that confidence in the dollar and in the Government securities markets depends basically upon confidence in the stability of securities which have already been bought by the American public. I believe that essential to this stability and to this confidence is the maintenance of a stable rather than a fluctuating or speculative interest rate in connection with Government securities. This is desirable in normal times. It is essential in times when the Government will be faced with ^{very large} [huge] financing and refinancing problems [of incalculable magnitude].

[I intend to exert myself to the utmost to achieve this absolutely necessary result, in the interests of our nation in this great emergency. I intend that the course which the Treasury is following in the pursuit of this objective be continued, because it is sound and because it has been tested by experience - not only in times of peace, but also in time of war. I believe that the Treasury has the resources and authority to protect the Government bond market; but if additional legislation is required, I shall seek it and strive to impress upon the American people the issues which are at stake.

I have trusted that, in these critical times, highly responsible men, when unable to compose their differences, would realize that the perpetuation of these differences would disrupt the business world, unsettle the economy, and impair general public confidence. It is far more in the public interest to reach a solution and get the matter settled, even if it might not be the best possible solution.] It is in this spirit that I have talked with officials of the Federal Reserve System and of the Treasury. I want the Federal Reserve System and the Treasury to continue their efforts to achieve the objectives which we all hold in common, and I am going to continue to exercise the responsibilities of my office toward that end.

I do not feel that any good purpose will be served, at this time, by further publication of communications between the President and other officials concerned with fiscal and monetary policy.

Sincerely yours,

As I indicated in my letter of February 2, I understood after our last meeting that the Federal Reserve System recognized the importance of this policy and would support it. Your letter indicates that this is not the case.

I am sorry that my understanding was not correct. I trust that, in these critical times, you and the other highly responsible men concerned will realize that a perpetuation of differences on this important matter would do much to disrupt the business world, unsettle the economy, and impair general public confidence. It is far more in the public interest to reach a solution and get the matter settled, even if the solution falls short of perfection.