

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 27, 1947

To Chairman Eccles

Subject: Luncheon with Mr. Wiggins

From Woodlief Thomas

Mr. Musgrave, Mr. Rouse, and I had luncheon today with Under Secretary Wiggins and Assistant Secretary Foley of the Treasury. No particular purpose for this meeting was evident from the conversation. The Under Secretary discussed and asked questions about prospects for tax legislation, in which he expressed the view that the tax reduction bill effective July 1 would be passed and he doubted that the President would veto it. Mr. Foley seemed to think that the President should veto the tax bill and let the labor bill become law without his signature.

Mr. Wiggins was particularly interested in the business outlook and asked for my views on that matter. I gave my usual reasons why I thought some readjustment was desirable and likely. I indicated that there are signs that it may already have begun but that one could not be sure, and in any event I felt that anti-depression policies such as tax reduction should not be undertaken until the end of the year at the earliest.

He was interested in the effect of recession upon the budget outlook and stated that if individual incomes fell below 168 billion dollars in the fiscal year 1948 (they are now 177 billion), there would be no funds available for further debt retirement, assuming tax reduction effective July 1, 1947.

Mr. Wiggins also more or less casually raised a question as to whether in view of impending recession a rise in short-term interest rates might subject the System and the Treasury to blame for the downturn. I indicated my view that this would not necessarily follow if the shift were properly managed so as to avoid a decline in bond prices. I also restated the opinion that there were still a number of inflationary elements in the situation. We did not have an opportunity to develop the point that the problem is a long-term one and not a matter of short-term variations.

Later Mr. Wiggins mentioned that he was to meet with Mr. Clark of the Council of Economic Advisors and has been preparing himself for that meeting. As we were about to leave he said he wished we would tell him how short-term rates could be raised without putting certificates below par. We discussed this subject for a few minutes. I think he had already discussed it some with Rouse. Apparently his concern is about unpegging the certificate rather than the bill rate, and his main worry is that outstanding certificates should not be permitted to fall below par.

W.T.