

January 8, 1949.

Mr. Elmer B. Staats,  
Assistant Director,  
Legislative Reference,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Staats:

This refers to your letter of January 7, 1949, in which you request an expression of views regarding the draft of bill, enclosed with your letter, "To establish a comprehensive and coordinated stabilization program, and for other purposes". The bill, which is entitled "Stabilization Act of 1949", contains eight proposed titles, the last of which relates to consumer credit and bank reserves.

In its letter to the Director of the Bureau of the Budget dated November 30, 1948, the Board stated that the subject of bank reserves was being given thorough consideration with a view to the formulation of a recommendation at a later date when economic trends could be evaluated more accurately. The Board also stated that it expected to propose that the authority over consumer instalment credit be extended or made permanent by appropriate legislation formulated in the light of experience under the existing legislation with a view to the introduction of a bill during the early part of the next session of Congress. Since writing that letter, the Board has given considerable thought to the problem of the most appropriate time at which legislation on these subjects might be introduced and has come to the conclusion that it is desirable that such legislation should be introduced, not as a part of a comprehensive bill, but later as separate legislation.

In conformity with the principle of decentralization on which the Federal Reserve System was established, it is the policy of the Board to obtain the views of the twelve Federal Reserve Banks on important proposals affecting the System. In pursuance of this policy, the Board has submitted to the Presidents of the Federal Reserve Banks tentative drafts of bills on bank reserves and consumer credit which its staff has prepared in the light of the study given these subjects and in accordance with the President's Economic Report. The Board has not yet received the comments of the Reserve Banks.

In the Board's judgment, there is not the same urgency for the presentation to Congress of bills with respect to bank reserves and consumer credit as exists with respect to the other titles of the proposed Stabilization Act of 1949. The Board now has authority to increase reserve requirements of member banks and to regulate consumer credit. This authority, which was enacted August 16, 1948, will not expire until June 30, 1949.

In view of these circumstances, we believe it is important from the standpoint of obtaining favorable Congressional action to have as much experience under existing authority as possible before determining finally upon the specific details of legislation to carry into effect the recommendations in the President's Economic Report on these subjects. This would be in accord with the understanding which was had at a recent meeting of the committee of which Mr. Nourse is chairman.

I have no comments to offer at this time with respect to other titles of the proposed Stabilization Act of 1949. I appreciate the opportunity which you have afforded me to comment on the proposed bill and also the opportunity for members of our staff to participate in the discussions which have been held at the offices of the Council of Economic Advisers with regard to the proposed legislation. When our drafts of bills regarding bank reserves and consumer credit have been completed, we will, of course, transmit them to the Budget Bureau.

Very truly yours,

/s/ Thomas B. McCabe,  
/t/ Thomas B. McCabe,  
Chairman.

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