

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

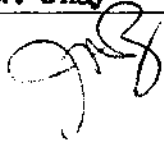
# Office Correspondence

Date February 2, 1959

To Chairman Martin

Subject: Questions raised during  
December 1958 hearings before the  
Joint Economic Committee

From Jerome W. Shay



It may be helpful in connection with your appearance before the Joint Economic Committee on February 6 to set forth below principal points expressed by Committee members at the December 15-18, 1958, hearings of the Committee on "Relationship of Prices to Economic Stability and Growth."

Senator Paul Douglas (Dem., Ill.)

He indicated that he saw nothing detrimental in Government deficit financing through use of bank credit "so long as total national resources are being used at less than capacity," as such financing would encourage employment of total resources

He seemed sympathetic to some legal procedure which would provide full public disclosure of contemplated price or wage increases in order to bring an informed public opinion to bear on demands of unions and management. (See suggestions of Senator O'Mahoney and Congressman Reuss, below.)

He suggested that if the regulation of consumer credit should be restored, the regulation should require lenders to make full and complete disclosure to borrowers of all interest costs. (Compare suggestion of Congressman Patman, below.) Note: The Board has been asked for a report on Senator Bush's bill to give the Board standby authority to regulate consumer credit.

Senator Joseph O'Mahoney (Dem., Wyo.)

The Senator seemed concerned that the Treasury does so much financing through bills when, "according to Federal Reserve spokesmen, Treasury bills are virtually the same as money," since he views the result as a "terrific increase in the velocity of money which is inflationary."

Apparently, he feels that, with our large corporations, there is no real price competition in business that can be relied upon to affect pricing policy.

He said he would reintroduce his 1948 bill to require 30 days' advance notice of proposed price or wage increases in dominant lines of commerce, during which periods public hearings would be held in order that full disclosures might be made to the public. (He has introduced such a bill.)

Representative Wright Patman (Dem., Texas)

He urged reduction of Government debt, especially in good times, and deplored the magnitude of the interest burden on the debt. He indicated that unless the debt is reduced, Government programs would have to be curtailed or taxes increased. Then came the usual one --- that the fiscal burden could be eased if Federal Reserve Banks, rather than commercial banks, bought all Government securities not absorbed by non-bank investors, to be followed by increases in reserve requirements to offset resulting increases in bank reserves, all of which would reduce the real interest cost to the Government because of Federal Reserve Bank payments of earnings to the Treasury. He suggested that increased purchases of Government securities by the Fed might be alternatives to either curtailed spending or tax increase.

He suggested that tax-exempt securities be made taxable.

He urged that if consumer credit controls were restored, the interest rate chargeable by regulated lenders should be subjected to a regulatory maximum, since the down-payment and maturity provisions of the regulation would reduce the lenders' risk.

Representative Richard Bolling (Dem., Mo.)

He saw "scare talk" about inflation as a "club to beat down sound and essential Government programs," and "to prevent the functioning of public policy at all levels."

Apparently, he believes that the cold war is a "real kind of war" to which the public must be aroused, and that continued failure to institute the necessary measures to out-distance Russia cannot be tolerated. He said that we have a "massive policy decision" to make to meet that situation; and seemed sympathetic to institution of some direct controls of the war-time variety if necessary to lead in the contest with Russia.

Representative Henry Reuss (Dem., Wis.)

He seemed prepared to push for his bill (1) to require the President to include in his Economic Report specific recommendations on credit and monetary policy, and (2) to establish a mechanism whereby an informed public opinion can be brought to bear on price or wage increases. (He has reintroduced such a bill in this Congress, and an identical bill has been introduced by Senator Clark. The Board has been asked for reports on these two bills.)

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Representative Thomas B. Curtis (Repub., Mo.)

He suggested that the impact of taxes and improved quality of goods and services on the general price level needs to be determined. (He raised this point with you a year ago.) He suggested further, that if the general increase in the price level reflects little except improved quality, then monetary and credit policy may have restricted growth rather than inflation.

He suggested also that the tax deduction for interest, because it encourages business borrowing to the point of greatly enhanced demand which runs up interest rates generally, may contribute to inflation. He seems to feel that the tax deduction for interest may in fact encourage a preference for high interest rates.

He suggested further that, as Government activity increases, which requires higher taxes, the general price level will necessarily rise to offset the tax increases.

(Congressman Curtis is also a member of the House Ways and Means Committee.)

cc: Mr. Young