B_B14
Comm. on Interest & Div. Oct 1-10, 1971

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

DATE: October 5, 1971

TO: CHAIRMAN BURNS

FROM: ROBERT C. HOLLAND

Control only posted rates not open market rates

Chuck Partee, Gordon Grimwood and I have gottentogether on the attached talking points on iterest rate ceilings for your meeting of the Cost of Living Council this afternoon.

Attachment

STRICTLY CONFIDENTIAL (FR) 10/5/71

Board endorses staff paper - C.Y.

1. The Board would prefer to see interest rates restrained through a voluntary system, under the aegis of the proposed Intergovernmental Committee on Interest Rates and Dividends. (Federal Reserve, Treasury, HUD, Commerce, SEC and possibly FDIC and HLB Board.) With respect to interest rates the President could announce the appointment of the Committee, state that it is charged with bringing maximum public pressure to bear to hold down or reduce interest rates, particularly those rates paid by consumers, and state further that if this voluntary approach is not effective, he will not hesitate to achieve the objective through mandatory controls. (Either amendment of the Economic Stabilization Act of 1970, or implementation of the Credit Control Act of 1969.)

2. If it is felt, for political reasons, that interest rates should be covered by mandatory controls from the outset, the Board would favor the addition of interest rates (and dividends) to Section 202 of the Economic Stabilization Act. However, the May 25, 1970, floor specified in that Section is not appropriate for interest rates. This point could be taken care of by changing the date specified in the Act, or by adding a new subsection to Section 202 of the Act.

The Board believes that amendment of the Economic Stabilization Act would be preferable to the implementation of the Credit Control Act of 1969. The latter statute contains the basis for a whole host of selective and quantitative controls on the volume of credit and could prove highly upsetting to the financial community.

3. If a decision is made to include interest rates in the Economic Stabilization Act, the Board would favor language that would permit a

voluntary approach, but with standby authority for the COLC to make controls mandatory if needed.

4. In either event, the Board would want it clearly understood that this new legislative authority would be used to restrain only ~~selected~~ interest rates charged for specific types of credit (consumer loans, residential mortgages, ~~etc.)~~ by lending institutions, and that there would be no attempt arbitrarily to limit those interest rates set in the open market. Attempts to control these rates would have major implications for monetary policy and could impair the credit allocating mechanism of the market. The runaway credit expansion that could result from such an effort might well destroy the Nation's economy.

5. The Board will be glad to provide suggested language to amend the Economic Stabilization Act to cover interest rates, either on a "standby" approach or on a mandatory basis.