

December 11, 1946.

Dear Mr. Clifford:

In accordance with your letter of December 2, I enclose two versions, one fairly brief and the other somewhat longer, of a suggested paragraph which you may wish to consider for inclusion in the President's State of the Union message. Both refer only in a general way to legislation that may possibly be necessary.

You will not, I trust, feel that I am going too far beyond the boundaries of the request in your letter if I take this opportunity to express a personal opinion with regard to the President's message. You have perhaps considered the advisability of making this message comparatively brief and general, instead of proposing a series of specific legislative recommendations which might become a target for the opposition.

It has seemed to me that the President might well state in general terms the broad economic necessity for the maintenance of as high a level of production and employment as can be continuously sustained, emphasizing the necessity at this time for adequate taxation to cover all appropriations by the Congress and to reduce the public debt; that he might then frankly recognize that legislation to achieve this objective must be enacted by the Congress, which is controlled by the opposition party. He might, therefore, announce that he wishes to cooperate as fully as possible with the Congress in carrying out the program that the majority party proposes.

I feel that the President should firmly place the responsibility where it belongs, that is, on the Republican majorities. I can see no reason why he should not candidly say that the consequences to the nation might well be disastrous if a stalemate were to result either from the opposition of Congress to a specific Administration program or from indiscriminate use of the veto power, and that such an impasse can best be avoided by having the Congress initiate and enact a program which he, to the best of his ability, will endeavor to carry out so far as the Executive branch of the Government is concerned.

This general approach, it seems to me, would further enhance the President's prestige which has been so greatly advanced by his firm stand in the coal strike.

Sincerely yours,

Mr. Clark M. Clifford,
The White House.

Enclosures 2

In the monetary field we still face problems growing out of the financing of the war. The supply of purchasing power in the hands of the public is still excessive in relation to available goods and services in most lines. This unbalance can and should be corrected, primarily, by continued growth in production and in the efficiency of production. Meanwhile, however, it must be our purpose to avoid unnecessary expansion of credit which would contribute to a further unbalance and, so long as strong inflationary tendencies persist, to bring about a contraction of the money supply whenever we can appropriately do so. The principal means available to the Government for these purposes are fiscal policy, debt management, and credit control. Responsibility with respect to debt management and credit control has been lodged, respectively, with the Treasury and the Federal Reserve System. Proper discharge of their responsibilities will require continued close cooperation between the Treasury and the Federal Reserve System, continued integration of debt management and credit control. It is essential, therefore, that existing legislation which facilitates such cooperation and integration be continued, as a contribution to the solution of our immediate problems. For the longer future, it is important that there be consideration of possible changes in legislation which will enable our monetary authorities better to perform the tasks which have been assigned to them by the Congress.

In the monetary field we face special problems growing out of the financing of the war and the resulting expansion of the public debt. The supply of purchasing power in the hands of the public is still excessive in relation to the available supply of most goods and services. This unbalanced situation has to be corrected primarily by a further increase in the production of goods in short supply, as well as by increased productivity generally. Meanwhile, fiscal and monetary policy should be directed to discouraging a further growth of the country's money supply. As long as inflationary forces are predominant, unnecessary credit expansion should be prevented as far as possible. In addition to a fiscal program to reduce public debt, it may be necessary for Congress to consider measures to prevent over-expansion of private credit and also to facilitate the carrying out of appropriate fiscal and monetary policies by the Treasury and the Federal Reserve System.