

REC'D FILES SECTION
MAR 12 1948
500.

THE WHITE HOUSE
WASHINGTON

September 26, 1947

My dear Mr. Chairman:

You are requested to submit to me by November 1, 1947, such material as you would propose for inclusion in the State of the Union Message or the Economic Report of the President to be transmitted to the Congress in January 1948. This material may be submitted in form suitable for inclusion in the drafts of these messages.

It may relate to proposed statements of administrative policy by the President, legislation to be recommended to the Congress, or recommendations for other types of action.

Replies to this request should also include any views which you may care to present at this time concerning special presidential messages during the session of Congress beginning in January 1948.

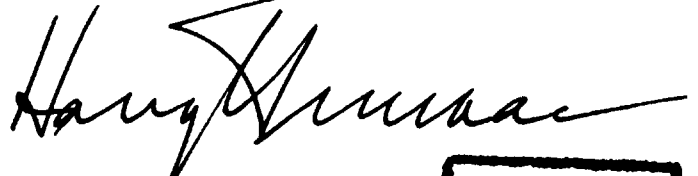
You are also requested to submit to me by November first a report showing the character of legislation of concern to the Federal Reserve System which you anticipate may be considered by the Congress.

Your report should show the subject matter of the anticipated bills, the position of the Federal Reserve System on each subject, whether you wish to recommend such legislation to the Congress, and the names of other departments and agencies which, in your judgment, are interested in the same subjects. The report should not be in great detail, but should contain sufficient information to identify the subjects upon which legislation may be introduced or requested. This report will not, of course, replace the individual submissions required by Bureau of the Budget Circular No. A-19.

Replies to these requests should be accompanied by five copies. Where necessary, supplementary materials may be submitted later than November 1, but not later than December 1, 1947.

The White House staff, the Council of Economic Advisers, or the Bureau of the Budget, as appropriate, may make additional requests for material, or arrange for discussions with your representatives to whatever extent may be required.

Very sincerely yours,



Honorable Marriner S. Eccles,
Chairman,
Board of Governors,
Federal Reserve System,
Washington, D. C.

Discussed with Messrs. Vint and
Thomas 10/1/47
cmw

FOR FILED
Woodruff Thomas

November 7, 1947.

Dear Clark:

I am enclosing a draft of a few paragraphs that the President might wish to consider including in his message in dealing with the credit side of the inflation picture. It refers, in general terms, to the need for legislation to give the Federal Open Market Committee of the Federal Reserve System authority to put into effect a special reserve requirement that would have a definitely restraining effect in creation of inflationary bank credit. This is a somewhat complex subject which I hope to discuss with you Monday noon. In the meantime, however, you might have an opportunity to look over the enclosed draft of an explanatory memorandum which is correct in all the essentials but on which I want to do some more work on details over the week-end.

I would also like to bring over to you on Monday some additional suggestions, relative to other aspects of the credit situation, which you may wish to consider for inclusion in the message.

Sincerely yours,

Enclosure

The Honorable Clark M. Clifford,
Special Counsel to the President,
The White House.

ET:ra

Under prevailing conditions of employment and production, with continued shortages of labor and raw materials, any increase in the outstanding volume of credit, extended to individuals or to business, would increase demand for goods and services without increasing total output. Accordingly, Government policy at this time should be directed toward restraining extension of credit beyond what is necessary to maintain the highest possible production. To this end, I recommend that the Congress give consideration to an interrelated program designed to restrict growth in the country's money supply that would magnify demand and thus intensify upward pressure on prices. Such a program calls for three closely related measures.

One is restoration, under specific legislative authority from the Congress, of regulation of consumer instalment credit. The second, of greater importance, is legislation to provide, as an emergency measure, preferably for three years, authority under which all banks engaged in the service of receiving and paying out demand deposits may be required to hold, in addition to present required reserves, some specified proportion of their deposits in the form of cash and interbank deposits or in Treasury bills, certificates or notes. The effect of this authority, which should be vested in the Federal Open Market Committee of the Federal Reserve System, would be to retard inflationary creation of bank credit.

Third, of paramount importance, is continuance of a budgetary surplus and the paying off of as much as possible of the public debt held by the banking system. We should forego all Government expenditures, whether federal, state or local, which can be avoided altogether or deferred until the current intense demands for labor and materials have abated. Rigid economy, prudent expenditure for essential Governmental purposes only, and deferment of tax reduction should go hand in hand as long as inflationary dangers confront us.

November 7, 1947.

Dear John:

I am enclosing for your information a copy of some suggested paragraphs which I have sent over to Clark Clifford to be considered in connection with the President's message to the special session.

Also enclosed is a preliminary draft of a memorandum which explains the reference in these paragraphs to proposed legislation that would authorize the Federal Open Market Committee to establish, as an emergency measure, a special reserve requirement against demand deposits of banks.

I am also sending copies of these enclosures to Lee Wiggins. I realize how pressed you are for time, but hope, even so, that you may find an opportunity to look over the proposal and its purpose with which I am sure you are in complete sympathy.

Sincerely,

Honorable John W. Snyder,
Secretary of the Treasury,
Washington, D. C.

November 7, 1947.

Dear Lee:

I am enclosing copies of material which I have sent to the Secretary and to Clark Clifford in connection with bank credit aspects of the President's message to the special session.

One enclosure suggests some paragraphs that the President may wish to consider including in the message. The other enclosure is a preliminary draft of a memorandum which explains the proposed legislation authorizing the Federal Open Market Committee to establish a special reserve against demand deposits.

I am working out some details of this memorandum over the week-end, but the enclosed draft gives the important features of it. I hope you may find some time in your busy life to look this over, because I am confident you will be in full accord with the objective sought. Needless to add, I welcome the opportunity to discuss it with you on Monday.

Sincerely,

The Honorable Archibald L. M. Wiggins,
Under Secretary of the Treasury,
Washington 25, D. C.

Enclosures - 2

ET:ra

11/7/47

Under prevailing conditions of employment and production, with continued shortages of labor and raw materials, any increase in the outstanding volume of credit, extended to individuals or to business, would increase demand for goods and services without increasing total output. Accordingly, Government policy at this time should be directed toward restraining extension of credit beyond what is necessary to maintain the highest possible production. To this end, I recommend that the Congress give consideration to an interrelated program designed to restrict growth in the country's money supply that would magnify demand and thus intensify upward pressure on prices. Such a program calls for three closely related measures.

One is restoration, under specific legislative authority from the Congress, of regulation of consumer instalment credit. The second, of greater importance, is legislation to provide, as an emergency measure, preferably for three years, authority under which all banks engaged in the service of receiving and paying out demand deposits may be required to hold, in addition to present required reserves, some specified proportion of their deposits in the form of cash and interbank deposits or in Treasury bills, certificates or notes. The effect of this authority, which should be vested in the Federal Open Market Committee of the Federal Reserve System, would be to retard inflationary creation of bank credit.

Third, of paramount importance, is continuance of a budgetary surplus and the paying off of as much as possible of the public debt held by the banking system. We should forego all Government expenditures, whether federal, state or local, which can be avoided altogether or deferred until the current intense demands for labor and materials have abated. Rigid economy, prudent expenditure for essential Governmental purposes only, and deferment of tax reduction should go hand in hand as long as inflationary dangers confront us.