

November 12, 1947.

PERSONAL AND CONFIDENTIAL

Dear Clark:

As I understood your request at luncheon on Monday, you wished to have me prepare some brief paragraphs, covering Federal Reserve matters, that might be used in the text of the President's special message to Congress, and also just a line or two to go in the enumerated points listing the various proposals in the message. Accordingly, I enclose on one page a brief description of the two proposals, we discussed, and on another page the captions, so to speak, that go with them.

Sincerely,

Enclosures 2

Mr. Clark M. Clifford,
Special Counsel to the President,
The White House,
Washington, D. C.



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--Authority to reinstate regulation of consumer
instalment credit.

--Temporary authorization of a special bank reserve
requirement.

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Under prevailing conditions of employment and production, with continued shortages of labor and raw materials, an increase in the aggregate outstanding volume of credit extended to individuals or to business would increase demand for goods and services without increasing total output. For this reason I recommend two measures at this time which would help to restrain extension of credit beyond what is necessary to maintain the highest possible production.

One is restoration, under specific legislative authority, of regulation of consumer instalment credit. The restraints provided by the Federal Reserve Board's Regulation W, which was terminated as of November 1 by the joint resolution of Congress, should be reinstated by Congress as a deterrent upon inflationary growth of this volatile type of credit.

As a more basic means of restricting excessive growth of bank credit, I also recommend that Congress give to the Federal Open Market Committee of the Federal Reserve System a temporary authority under which all banks engaged in 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 balances with Federal Reserve Banks or other banks or in Treasury bills, certificates or notes. At present the banking system has access, without effective limitation, to reserves upon which a multiple expansion of bank credit can be built. The proposed measure would serve to retard expansion of bank credit beyond the requirements of full and sustained production.