

EXECUTIVE OFFICE OF THE PRESIDENT  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON 25, D. C.

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April 7, 1947

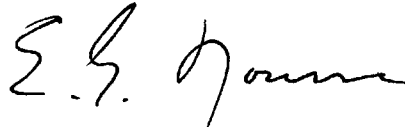
The Honorable Marriner S. Eccles, Chairman,  
Board of Governors of the Federal Reserve System,  
Washington, D. C.

Dear Mr. Eccles:

It is the desire of the Council of Economic Advisers to keep its summaries and appraisals in intellectual step with the work of other agencies of the Government. To this end, I am sending you herewith a confidential advance copy of the memorandum which we have prepared for the President as the second quarter of 1947 opens. A copy is also being sent to Dr. Woodlief Thomas.

If, on examining this statement, you have any comments or suggestions as to change in emphasis or evaluation, we should be glad to hear from you. We expect to present this document to the President and discuss it with him tomorrow morning.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "E. G. Nourse", written in a cursive style.

Chairman.

April 7, 1947

Mr. Allan Sproul,  
President,  
Federal Reserve Bank of New York,  
New York 7, New York.

Dear Allan:

In accordance with the Chairman's request, I am sending you an excerpt from a confidential advance copy of a memorandum prepared by the Council of Economic Advisers for the President, together with a draft of suggested rewording of two of the paragraphs. This memorandum, I understand, was for the purpose of discussion by the Council with the President. I do not know that it will ever be published, and for this reason it should be considered entirely confidential.

In my conversation with the three members of the Council I explained that the statement on credit control, as they had worded it, might have been interpreted as a commitment which would prevent the System from making any changes in present policies. The change in the reference to consumer credit was for the purpose of indicating that the Executive Order needed to be rescinded in the absence of legislation.

The Council members expressed willingness to accept the suggested changes, and it is my understanding that they would insert in their memorandum the attached substitute.

Sincerely yours,

(Signed) WOODLIEF THOMAS

Woodlief Thomas, Director,  
Division of Research and Statistics.

Enclosures.

WT:pb

A related policy which is important at this time because of its anti-inflationary effect is the further retirement of that part of the debt which is held by the commercial banks. This process reverses the inflationary process which takes place when the Government sells bonds to the banks, and new deposits are thereby created. By paying off bonds held by the banks, the Government brings about a reduction in deposits, which is anti-inflationary. Under present conditions it should be done to the fullest possible degree, and present tax rates should be maintained for that purpose.

Of similar import is the policy of credit control. For the protection of the Treasury in the matter of the rate of interest on the Federal debt, it has been necessary to suspend the traditional function of the central banking system to influence economic conditions by using its power to change interest rates. There is still left the power to limit the growth of installment credit which, even under the present restraints, has been expanding at a disturbing rate.

If the curbs on the extension of installment credit now being exercised under Regulation W were to be removed at this time, or the power to limit such credit were to expire on June 30, there would be a tendency of producers and distributors to try to sustain the absorptive power of the market by accepting lower down-payments and a longer time period rather than adjusting prices to the purchasing power of current incomes. This would postpone rather than promote the kind of stable adjustment that our economy requires.

It is in line with the philosophy of the Employment Act that there should be some effective means of opposing unwise credit expansion in boom times and of easing credit as a recovery measure. Hence we would recommend that the President lend his support to legislation designed to include the regulation of installment credit among the permanent powers of the Federal Reserve System.

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April 9, 1947.

Dear Dr. Nourse:

This is to thank you for your letter of April 7 enclosing a confidential advance copy of the memorandum which you prepared for the President reviewing the first quarter of 1947.

I read it immediately and then got in touch with Woodlief Thomas in order to suggest some modifications of the paragraphs relating to interest rates and instalment credit. I understand that these changes were agreeable to the Council, and I wanted to take this occasion not only to commend the Council's statement, but to express again appreciation of the fine cooperation which you and your associates have continued to extend to us.

Sincerely yours,

M. S. Eccles,  
Chairman.

Dr. Edwin G. Nourse,  
Chairman,  
Council of Economic Advisers,  
Executive Office of the President,  
Washington 25, D. C.

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