

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.

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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 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

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THE SECRETARY OF THE TREASURY
WASHINGTON

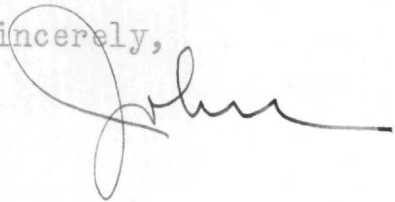
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Dear Marriner:

Many thanks for your letter of November 7 with enclosure. I shall study your suggestions carefully and talk with you about them later.

Best regards,

Sincerely,

A handwritten signature in black ink, appearing to be the name "John", written in a cursive style. The signature starts with a large loop and ends with a long horizontal stroke.

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