

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 9, 1948

To Chairman Eccles
From Mr. Young

Subject: Report on meeting of CED
Subcommittee on Stabilization
Policy for 1948.

On the basis of the discussion of this Subcommittee at the Waldorf-Astoria on Friday, February 6, it now appears that the final CED statement regarding monetary and fiscal policy for 1948 will include the following major items:

1. On the monetary side, more vigorous efforts to restrict expansion of bank credit. This recommendation will recognize that a more aggressive monetary policy may require additional general credit control authority from Congress, but will not specify the nature of such authority. The strategic paragraph will read about as follows:

"If the Federal Reserve needs to intensify its restrictive policy, it must be able to operate flexibly. It should determine the volume of its purchase or sale of Government securities on its own initiative and with primary attention to the effect of its action on member bank reserves. The Committee believes that the maintenance of an orderly market for Government bonds is consistent with monetary restriction, and that the Federal Reserve should assist in maintaining an orderly market. It may not be consistent, however, while following an adequate restrictive monetary policy to continue to support Government bonds at present prices. The supervisory practice in measuring the amount of a bank's income and of valuing Government bonds at cost less amortized premium, which has been followed by both Federal and State supervisory authorities since 1938, should be continued."

In addition to this statement, the Committee will recommend, without reservation, reestablishment of Federal Reserve regulation over consumer installment credit.

*Reverses
earlier position
[Signature]*

2. On the fiscal policy side, recommendations will be:
 - a. A national voluntary savings drive.
 - b. Deferment of all Government expenditures not urgently needed.

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- c. Contraction of the Government's loan guarantee program with establishment of an appropriate authority to coordinate credit policies of Federal agencies engaged in making or guaranteeing domestic loans.
 - d. Tax reform, with income splitting and elimination of excise taxes on transportation and communication given as immediately effective benefits, but reduction in income tax rates given in the form of tax reduction bonds. The latter recommendation would be effective by issuing a tax refund Series E-type bond at the close of the tax year, March 15, 1949, to cover 1948 tax reduction. The tax refund bonds would be redeemable 60 days after issue.
3. Prompt reversal of restrictive monetary and fiscal policy in the event of a business downturn in 1948.

A handwritten signature in cursive script, appearing to be "R. A. G.", with a horizontal line drawn through the middle of the letters.