December 16, 1947.

Chairman Eccles:

In response to the telephone call to Ralph Young this morning from Mr. Smithies of the Budget Bureau regarding the Treasury proposal on an NAC for domestic credit, I advised Mr. Smithies of the Board's position in this matter, in line with your instructions to me on the telephone and in line also with what I told the Treasury Counsel on yesterday as to the Board's position. Mr. Smithies commented that he was of the same view -- that the matter was too important to be passed upon hurriedly at this session of Congress, and that more time should be taken, with an opportunity for all interested agencies to consider the matter carefully. He said that he would do what he could to try to see that the Budget Bureau takes this position on the matter.

SBV

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date December 15, 1947

To Chairman Eccles

From Mr. Vest

Subject: Treasury proposal for a NAC on domestic credit extension

Referring to our telephone conversation of yesterday, I attach a draft of a bill prepared by the Treasury to establish a NAC on domestic credit extension and a draft of message which the President might send to Congress in this connection. Mr. Lynch, General Counsel of the Treasury, gave this to me after discussing the matter with Secretary Snyder, and they are anxious to know the reaction of the Federal Reserve to the proposal as soon as possible, as they wish to have it in the President's hands in time to be sent up as a special message to Congress either today or tomorrow.

The proposed new Council would coordinate policies and operations of all agencies of Government in extending or supervising the extension of domestic credit and would consist of the heads of the following agencies: Treasury, Agriculture, Federal Reserve, Reconstruction Finance Corporation, Housing, Veterans, Federal Deposit Insurance Corporation, and Federal Works, and the Chairmen of the Banking and Currency Committees.

GAV

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C O P Y

MEMORANDUM TO THE PRESIDENT:

I submit herewith a proposed bill to establish a National Advisory Council on Domestic Credit Extension, together with a draft of message for transmitting the proposed bill to the Congress.

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C O P Y

TO THE CONGRESS OF THE UNITED STATES:

In the program to curb inflation which I submitted to the Congress on November 17 I pointed out that one of the measures in the immediate approach to the problems of high prices and inflation should consist of relieving monetary pressures and I mentioned that one way to reduce monetary pressures is by restraining the excessive use of credit. I also said that our long-range program must stress ever-increasing production, and I emphasized that the Government will intensify its efforts to obtain voluntary action by businessmen, labor leaders, farmers, and consumers to hold prices down.

Since that time several of your Committees have held extensive hearings during which all sides of the problem of curbing the inflationary extension of credit have had an opportunity to be presented. During the same period, the bank supervisory authorities, Federal and state, have issued a general statement on the subject of the inflationary extension of credit for the guidance of bankers and have continued to exert their full influence in the

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direction of counseling the banks under their supervision to a policy of restraint and moderation in the extension of bank credit of all sorts, and particularly of that which does not result in a reasonably prompt increase in the flow of goods and services. The response which the supervisory authorities have received and are receiving from the banks of the country is gratifying.

During the same period the several Federal lending and loan guarantee agencies have continued to reappraise their lending and loan-guarantee policies in the light of the overall inflationary situation.

An examination of the testimony which has been presented to your Committees shows a universal agreement on the part of all witnesses, Government and private, that the key element in the situation is the effective coordination of Government and private lending and loan-guarantee policies. Such coordination can be most effective if it operates on both the legislative and executive levels as the policies of the Federal lending and loan-guarantee agencies often stem directly from Congressional mandates. Its effectiveness would also be increased if it included, not merely the

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agencies concerned with the administration of Federal lending and loan-guarantee programs and with the examination and supervision of private lending institutions, but also the agency concerned with the overall planning of Federal public works.

I, therefore, request that the Congress enact legislation to establish, in the field of domestic credit extension, a central coordinating agency similar to that created by the Congress and now successfully operating in the field of foreign lending. I refer to the precedent of the National Advisory Council on International Monetary and Financial Problems, established by the Congress in Public Law 171, 79th Congress, approved July 31, 1945. In the companion field of domestic credit extension, I now propose the establishment of a National Advisory Council on Domestic Credit Extension, to have as its Chairman the Secretary of the Treasury and to include the Chairmen of the Committees on Banking and Currency of the Senate and House of Representatives, the Secretary of Agriculture, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Board of Directors of the Reconstruction

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Finance Corporation, the Housing and Home Finance Administrator, the Administrator of Veterans' Affairs, the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, and Federal Works Administrator. This Council would function in the field of domestic credit extension in a manner similar to the NAC in the field of foreign lending and would be able to make an effective contribution to restrain domestic credit extension.

This council would not only aid in the coordination of the policies of the several Federal agencies but also would serve as a central point of contact between the Federal Government and private lenders and their representatives for the discussion of problems of inflationary credit extension.

The desirability of and need for such a Council is implied in practically all of the testimony which has been heard by your Committees. Its creation would be a wholly constructive act and would be consistent with all of the varying views which have been presented to your Committees. The sooner the Council is created, the more effective will

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be its work. I respectfully suggest, therefore, that the Congress give the earliest possible consideration to its creation.

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A BILL

To establish a National Advisory Council on Domestic Credit Extension.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby established a National Advisory Council on Domestic Credit Extension (hereinafter referred to as the "Council") consisting of the Secretary of the Treasury, as Chairman, Chairman of the Senate Committee on Banking and Currency, Chairman of the House Committee on Banking and Currency, Secretary of Agriculture, Chairman of the Board of Governors of the Federal Reserve System, Chairman of the Board of Directors of the Reconstruction Finance Corporation, Housing and Home Finance Administrator, Administrator of Veterans' Affairs, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, and Federal Works Administrator.

Sec. 2. The Council, in order to restrain inflationary domestic credit, shall coordinate by consultation or otherwise, within statutory limitations, the policies and operations of all agencies of the Government to the extent

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they engage in extension, or the supervision of extension, of domestic credit.

Sec. 3. The Council may recommend to the President general policy directives for the guidance of all agencies of the Government to the extent that they engage in extension, or the supervision of the extension, of domestic credit.

Sec. 4. The Council shall consider and study the inflationary effects of expenditures for public works, and shall make recommendations to the President on the desirability of limiting such expenditures in the interests of curbing inflation.

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