

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

7/14/50 -- memo dictated by M. S. Eccles

This memo is the substance of what I discussed with Symington and Keyserling in person, and also with Senator Douglas on the telephone.

Senator Douglas said he agreed 99.9%

Symington and Keyserling agreed, except that Keyserling said he would like to consider further the question of the section covering the Treasury relative to raising the interest rates before he could agree.

I tried to see Senator Taft but found he was in Ohio -- talked to his assistant, Mr. Martin.

Mr. Martin suggested I write to Senator Taft and send him a copy of the memo.

Senator Douglas suggested I send him a copy.

I did not leave a copy with Symington and Keyserling, as I decided to rewrite the memo and make some corrections and additions before sending a copy to them, as well as to Taft and Douglas.

Mr. Thurston is, therefore, revising the memo according to my suggestion and he will air mail a copy to me at Ogden on Monday, 7/17

Washington, D. C.,
July 14, 1950:

Governor M. S. Eccles discussed this program with the following:

W. Stuart Symington (Chairman of the National Security
and Resources Board)
Leon H. Keyserling (Chairman of the Council of Economic
Advisers)

(In the office of Mr. Symington, who invited
Mr. Keyserling to be present)

They agreed, except that Mr. Keyserling said he
would like to consider further the question of
the section covering the Treasury relative to
raising the interest rates before he could agree.

Senator Paul Douglas (on the telephone)

He said he agreed 99.9%. Suggested sending copy.

Mr. Martin (Assistant to Senator Taft).

Senator Taft was in Ohio; Mr. Martin suggested Mr.
Eccles write to Senator Taft and send him a copy
of the memo to his Washington office.

Mr. Eccles did not leave a copy of his original memo with
Messrs. Symington and Keyserling as he decided to
rewrite it and make some corrections and additions
before sending copy to them and the two Senators.

On 7/18/50 Mr. Thurston sent copies of the final memo to
Senators Taft, Douglas and Fulbright; he overlooked
sending copies to Messrs. Symington and Keyserling
until 7/26/50 (after telephone call from Mr. Eccles
on 7/25/50, Ogden).

July 14, 1950.

To protect the country in the first instance from the inflationary dangers inherent in the Korean crisis -- without resort to ^a blanket of price controls, rationing, etc., such as would be required to wage another world war -- and, secondly, from an abrupt subsequent industrial collapse, the Government should:

I. Appeal to every bank to unite in a nation-wide voluntary agreement:

First, to stop bank credit expansion at its source by extending no new credits on balance. This means that the volume of new loans made by any bank would not exceed the volume of loans paid off.

Second, to prevent further monetization of the public debt, that is, selling Government securities to obtain reserves on which to pyramid new loans and investments. Banks that gain deposits should invest in Government securities; banks that lose deposits would sell such securities. This will balance out in a way that will be a steadying influence toward an orderly market.

To this end, the Treasury should issue 15-year, 2-1/2 per cent non-marketable bonds; short term rates should be permitted to rise moderately. The combined result would relieve pressures on the long-term market. At the same time the Federal Reserve should increase the discount rate to 2 per cent.

If this voluntary program succeeds, as it can with wholehearted support of every American banker, sharp increases in reserve requirements, which would be the only other effective way to accomplish the same purpose, would not be necessary.

- II. Put stiff consumer instalment credit terms in effect at once with down payments high enough and maturities short enough to halt further swelling of the already excessive volume of these borrowings to buy automobiles, refrigerators, washing machines, and other appliances. Stopping further growth of this credit -- preferably causing a shrinkage on balance -- would help to relieve the drain on critical metals and other materials, as well as reduce the inflationary impact of excessive demands for goods.
- III. Reduce, so far as possible, the budgetary gap, by a ban on new tax cuts, by closing existing loopholes, by increasing the postal rates to a pay-as-you-go basis, and by other steps, the most important of which is to levy an excess profits tax of 75 per cent maximum based on percentage of invested capital, since there is no existing base period to use as a guide because corporate profits in the post-war years have been phenomenally large. The excess profits tax should exempt the first \$5,000 of earnings for all corporations. This would benefit small

business. The tax should be graduated, starting, for example, at a rate of 10 per cent up to the first million dollars.

- IV. Curb further expansion of housing credit by stopping further purchases of mortgages by "FannyMay", suspending special benefits for veterans and others and by a closely restrictive FHA lending policy. This is essential to reducing demands for lumber, steel, copper, etc., as well as for labor.
- V. Call upon the public, which is remarkably united in this crisis and will respond to firm leadership, to save and invest in U. S. Savings bonds.

By such a vigorous credit, fiscal, and monetary policy as the foregoing, the need will not exist for direct controls, the enforcement of which, in peacetime, is virtually impossible, aside from the army of administrators required and the inevitable harrassments to businesses and individuals. Such a program, loyally supported, will prevent the boom now that spells inevitable bust later when the crisis is past.