

STATEMENT ISSUED AT SALT LAKE CITY, UTAH,  
BY  
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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Because of the Korean crisis a dangerous inflationary situation is rapidly developing. This is due to the urgent and increasing military needs and a rapid stepping up of business and civilian demands on top of an economy that has been showing inflationary pressures for some time, especially in the durable goods and housing sector. Price inflation is sure to develop when the demand for goods and services supported by money and credit exceeds the supply. The available supply of money and credit can be increased only by the banking system making loans to or buying securities from either the Government or the public. In the present situation it is, therefore, imperative, if price inflation is to be controlled, to stop the overall growth of loans and investments by the banking system, including the Federal Reserve. This can be promptly brought about if the Government will adopt without delay the required monetary and fiscal program.

Such a program would materially reduce civilian demand and thereby increase the supply of goods and labor available for the military needs without the necessity of putting the country under all of the onerous war-time direct controls, unless the Korean situation develops into World War III. Even then, it may not be necessary to go all the way because it would likely be an atomic war that would not last long. In any case, the following program is an urgent necessity and should be carried out immediately, no matter what action may be called for later:

Monetary and Credit Program

1. Request every bank to unite in a nation-wide voluntary agreement to stop bank credit expansion which has been growing rapidly by limiting new loans made by any bank to the amount of loans paid; meet the gain or loss in its deposits by buying or selling Government securities accordingly. Such a bank program would stabilize the Government securities market, as well as the general credit situation. If this voluntary program is not carried out, then the Federal Reserve should increase reserve requirements to the legal limit and get additional powers if necessary.

2. Request the insurance companies and the mutual savings banks not to sell their Government securities for the purpose of getting money to increase their loans and other investments. This would avoid putting pressure on the Federal Reserve to support the Government securities market, thereby creating new deposits and excess reserves in the banking system.

3. Require the R.F.C. to stop making loans, except when they are for military purposes and cannot be gotten elsewhere.

4. Reduce the effective demand for housing by requiring F.H.A. to rescind its recent reduction in interest rates and reduce its insurance coverage, thereby requiring home owners to make larger down payments, slowing up the approval of mortgage guarantees by the Veterans Administration and mortgage insurance by the F.H.A., requiring the Federal National Mortgage Association to limit its purchases of insured and guaranteed mortgages to the amount sold.

5. Reduce the effective demand for consumers durable goods by giving to the Federal Reserve control of consumer credit terms, which should be made sufficiently restrictive as to down payment and maturity to curb further growth of the huge volume now outstanding.

6. Require the Treasury to permit short-term interest rates to rise moderately and thereby take off the pressure for long-term interest rates to go down. This change of policy would make the Government securities more attractive to the public. It would reduce the need of the Federal Reserve supporting the market for Government securities which creates excess money and makes impossible the restrictive monetary policy that is called for.

The above six-point program has the advantage that it can be put promptly into effect or rescinded to the extent needed without requiring legislation, with the exception of consumer credit regulations.

#### Fiscal Program

1. Make no reduction in taxes this year.

2. Increase second and third class postal rates enough to meet large Post Office deficits.

3. Close tax loopholes previously recommended by the Treasury, especially those where the Government is losing large amounts of revenue.

4. Reimpose a corporation excess profits tax of 75 per cent on all net earnings above 10 per cent on the first five million of invested capital and eight per cent on any balance, allowing a five thousand exemption of earnings subject to excess profits tax.

5. Request organized labor to make no demands for wage increases while excess profits tax is in effect.

6. The Treasury should offer promptly to non-bank investors long-term non-marketable bonds, G type, 15-year maturity, interest rate 2-1/2 per cent.

The above fiscal program is essential if the Government deficit is to be held to a minimum so that it can be financed outside the banking system.

This is also an essential requirement of the monetary and credit program suggested if it is to be successful. The present situation calls for the people to save their money and purchase more bonds. They cannot be expected to do this unless the Government takes the necessary action to protect the purchasing power of the dollar (their money) from further price inflation, which has already been permitted to go too far. The vigorous credit, monetary and fiscal program above outlined will accomplish this purpose without the need of imposing the objectionable harness of direct controls.