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THE SECRETARY OF THE TREASURY

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MEMORANDUM FOR THE PRESIDENT

The attached memorandum "Current Monetary Policy Issues" is an excellent presentation of the issues which face us in the immediate and short-run future.

These issues, in brief, are:

1) The Federal Reserve needs to make a decision whether (a) to resist upward rate pressures for the foreseeable future -- a month or two -- even if this requires providing reserves to support more rapid expansion in bank credit or (b) to accept higher rate levels, presumably by raising the discount rate.

2) The case for some Federal Reserve action is growing but is not conclusive --

   -- The Fed argues that if monetary policy is to be of maximum effectiveness, it must move before the need for restraint can be fully proved.

3) The case for the status quo rests on two points:

   -- The danger of overheating is still tenuous, and

   -- The margin for tightening policy without undue restrictive effects is narrow.

4) Both higher rates and the status quo involve risks. But my conclusion is that the risks of tightening are still greater than the risks of overstaying present policies. I feel there is time to review this decision when we know more about the budget, meanwhile watching both the economic indicators and market trends for early signs of overheating.

As you know, my general position in this matter has been reflected in my speech to the American Bankers Association in Chicago yesterday -- the pertinent pages of that speech are attached.

On Monday, I spent two and a half hours with Bill Martin in which I made my own position clear. I read Bill that portion of my speech which I have attached to this memo. I told him that my own view was that the time for further tightening was not at hand, although it was, of course possible that such action might be required in the future.

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I thought that it would be better to wait until there was more clear-cut evidence that tightening would be necessary. I did not think there was any case for easing policy. My prescription was to stay "steady in the boat" for the time being.

At Chicago, I made evident in answer to inquiries that I could not oppose modest and selective increases in interest rates charged particular customers or a given type of customer, such as finance companies, by banks. In my judgment, it would be unwise to take any other position. The clear implication of my remarks was resistance to changes in the prime rate because that would mark a more general bank loan rate increase than I consider desirable at this time. I believe this posture should be the one we hold in responding to questions that may come to us from bankers, but I would not advise you to become directly involved.

Henry H. Fowler
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Attachment