

WFCF

British dollar

December 10, 1964

EXECUTIVE

FI 8

FG 233

Dear Wright:

I appreciate your letter of December 1 about the recent increase in the Federal Reserve discount rate. I certainly share your concern over the possibility that a marked tightening in credit could slow down or even reverse our fine economic expansion. As we both know, that expansion has brought the Nation great benefits in higher living standards and greater productive power. Its further progress is essential to our success in attacking poverty, structural unemployment and urban blight, and in building a Great Society.

It is indeed unfortunate that the pound sterling came under such severe pressure that the British were forced to resort to a sizable increase in their bank rate. Under the circumstances, however, the Federal Reserve came to the reluctant conclusion that an increase in the United States discount rate was required as a precautionary measure. The action by the Federal Reserve was intended to show our determination to protect the dollar and to preserve the smooth functioning of the international financial system.

It was not intended to signal a general tightening of domestic credit or to reflect any judgment that there were inflationary or speculative developments in the domestic economy that needed to be curbed. I am gratified by the success achieved during the past few weeks in maintaining the availability of funds and relatively stable interest rates on bank loans and securities, including longer-term Treasury obligations.

Of course, I regret any increase in credit costs at this time. But I am convinced that we can look forward to further noninflationary progress in our domestic economy with the support of monetary policy. I assure you that I will be doing everything in my power to promote even greater prosperity, and I know that I can count on your effective and dedicated support.

Sincerely,

Lyndon B. Johnson

Honorable Wright Patman, Chairman
Committee on Banking and Currency
House of Representatives
Washington, D. C.