

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

January 23, 1951.

Memorandum to Secretary Snyder:

There is attached copy of a statement made in New York on January 18 to Mr. John G. Forrest, Financial Editor, New York Times, at which time I authorized him to use the statement as the basis of an interview or an article.

The New York Times published part of the statement in the form of an interview on the first page of the Financial Section of the Sunday, January 21 edition.



J. K. V.

Attachment.

Copy of Statement made in New York on January 18, 1951,
to Mr. John G. Forrest, Financial Editor, New York Times,
by J. K. Vardaman, Member, Federal Reserve Board.

(The Times was authorized to use the statement as a basis for an interview or article. Part of the statement was published in the Times in the form of an interview on the first page of its Financial Section in its issue of Sunday, January 21.)

I have thought for many months that the most serious problem with which the United States Government is confronted is the preservation of a sound American dollar. We can even accept defeat in military engagements and still survive as a nation so long as our economy and our money are sound. But without a sound dollar with a strong purchasing value in domestic and world markets we cannot survive as a nation with our present form of Government, even though we may win all of our military engagements.

For some months it has appeared to me that the nation should have at the earliest possible moment a complete pattern of strict direct controls embracing allocations of strategic materials, rationing, price controls and wage controls. These controls should be "across the board", total in effect, and cover all classes of our personal and corporate population.

In addition to these direct controls there should, of course, be an adequate program of taxation, including a general sales tax; and there should be other fiscal, monetary and credit controls sufficiently powerful to siphon off the backlog of surplus money to be automatically created by the direct controls.

It strikes me that we are simply deluding ourselves as public officials, and not being entirely fair with the American people, when we

convince ourselves and lead the people to believe that voluntary agreements, as desirable as they may be in peace time, and selective credit controls, over-all credit controls, and the highest practical tax assessment, will be sufficient to restore and preserve the purchasing value of the dollar and thereby protect and perpetuate our present form of Government.

We must have organization and discipline in our civil population as well as the military, or else our whole structure is apt to collapse. The necessity for this discipline is emphasized by the probability of attack on the United States proper. In our present state of mind, panic would probably result from such an attack; whereas, if we begin immediately to accustom ourselves to discipline in thought as well as in action we will be much more likely to survive.

On the fundamental question of selective credit controls I feel now as I have always felt, that such controls are unwise. Actually they have little or no material effect percentagewise on the total national credit structure; but they do have a disastrous effect on the social attitude of the people, primarily because they do not affect equally all income classes and corporate groups. Factional opposition to these controls, some sound and some selfish, handicaps the over-all monetary and credit control function of the Federal Reserve System because when the Board acts in these limited areas the populace and the Congressional opposition become vocal and strong enough to prevent the Board being granted necessary additional selective and general control authority to meet its contemplated statutory responsibility in the monetary and credit field. In other words, distrust and loss of confidence in the Board's objectivity brought about by these

pinpoint, annoying and ineffective selective controls potentially weaken the entire structure of Board authority. I have always thought that the Board's contribution to our Nation would be much more constructive if the Board were more exclusively in the position of a High Court and less in the position of a police judge and policeman.

Right or wrong, good or bad, the fact remains that Regulations W, T and X have not in the past, nor have they at present, stopped the inflationary trend and the flight from the dollar. They may be very good regulations concomitant to fiscal, monetary and direct controls, but by themselves they appear to me to do more harm than good. And I speak from more than twenty years successful experience which I enjoyed as a lawyer, banker and businessman before becoming a member of the Board.

I believe that the people of this country have confidence in President Truman personally and will whole-heartedly obey and support a program of over-all direct controls. Enforcement machinery can well follow the imposition of the controls, and their imposition should not be delayed the months required to set up such machinery. Of course there will always be an appreciable percentage of chiselers and cheaters, black marketeers and other scum; but a vast majority of the American people are honest and law abiding and in this critical period when our very existence depends on our behavior I firmly believe that the population will largely police itself in these vital matters.

Having served more than five years in combat service with the Army and amphibious Navy in our last two wars I am convinced that the armed forces also have faith in the Presidency and in the American people. If they

didn't have they couldn't do a good job in the field, and nobody realizes that better than the mothers and fathers and friends of armed service personnel, and those people will obey and help police any pattern of controls that may be necessary.

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