

THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR The Secretary of the Treasury and
The Chairman of the Board of Governors
of The Federal Reserve System

During the past few months I have discussed with each of you many times my concern over the problem of inflation and the approaches which might be taken by the Government to control it. The Government has during this period taken many steps to bring the problem of inflation under control.

In my consideration of the inflation problem, I have been aware of the difficulties faced by the Federal Reserve System in controlling private credit expansion at a time when we have a large public debt. All of us recognize, of course, that credit expansion is simply one phase of the whole inflation problem; and that, in fact, some credit expansion is necessary to facilitate the growth of production which is essential to the defense effort. But, the expansion of loans, not only by the banking system but by financial institutions of all types, adds fuel to other inflationary forces and must be stopped to the greatest extent possible consistent with the needs of the defense effort. In stopping credit expansion, however, I feel that we should use measures that are fully consistent with the necessity for maintaining stability in the Government security market and confidence in the credit of the United States.

As you know, it is likely that we shall have to borrow billions of dollars to finance the defense effort during the second half of this calendar year because of the seasonal nature of tax receipts which concentrate collections in the first half of the year and the inevitable lag between the imposition of new taxes and their collection by the Treasury. It is my hope that such new money as it is necessary for the Treasury to borrow during the months ahead to

finance our military requirements can be obtained in the least inflationary manner possible, that is, from true investors outside of the banking system.

With these factors in mind, I ask that each of you give immediate consideration to the type of program that might be worked out along the following lines -- a program which would provide the necessary restraint on credit expansion and at the same time make it possible to maintain stability in the market for Government securities. This program would (1) control bank loans through the utilization of the powers provided by the Emergency Banking Act of 1933 and, possibly, the Trading with the Enemy Act; (2) set up a committee similar to the Capital Issues Committee of World War I; (3) further restrain the lending and mortgage insurance activities of the various Government credit agencies; and (4) encourage savings through the medium of an aggressive savings bond campaign.

- (1) The powers provided in the Emergency Banking Act of 1933 could be utilized to curtail lending by member banks of the Federal Reserve System. These powers are vested in the Secretary of the Treasury subject to my approval. The Secretary could by regulation delegate the administration of this program to the 12 Federal Reserve Banks, each to act in its own Federal Reserve District. It is contemplated that the credit needs of the country are likely to be such that the program might well permit flexibility between Federal Reserve Districts and individual parts of such Districts, in order to allow for the financing of certain types of industrial and commercial, as well as State and local, projects, necessary to the defense effort. The program could be extended to institutions other than member banks if desired through application of powers provided by the Trading with the Enemy Act.

- (2) A committee similar to the Capital Issues Committee of World War I, but operating in a broader area, could be created by Executive Order. The objectives of this Committee would be to prevail upon borrowers to reduce their spending and to curtail their borrowing, and to prevail upon lenders to limit their lending. This committee would work closely with the defense agencies under Mr. Wilson with the objective of curtailing allocations of critical and essential materials where necessary to encourage cooperation.

- (3) The activities of Government credit agencies might be curtailed further, and I am willing to consider the issuance of appropriate orders along this line to such agencies, among others, as the Federal Housing Administration, the Veterans Administration, the Farm Credit Administration, and the Reconstruction Finance Corporation. Indeed, we should give thought to a virtual moratorium on the activities of government credit agencies, except to the extent that their activities contribute directly to the defense effort.

- (4) It would appear desirable to undertake as soon as practicable an aggressive savings bond campaign to encourage savings as a part of our anti-inflation program. A good strong savings bond program would appeal to the imagination and patriotism of the American people and by its own success would help to encourage savings generally by our people.

In addition to the foregoing, consideration should be given to tightening existing selective credit controls wherever that is possible, and programs involving voluntary restraint on the part of lenders and borrowers should be explored to the utmost.

It is my belief that the suggestions I have made will provide a well-balanced program of credit curtailment. It will do the very thing that each of us has been so concerned about in recent months -- that is, effectively restrain the expansion of loans. Therefore, I am asking the Secretary of the Treasury to call a meeting with the Federal Reserve to take action toward implementing these proposals as soon as possible. In this connection, consideration should be given to making the effective date of the new credit control program coincide with the date of this memorandum. This would avoid the possibility that an advantage might be gained by some borrowers or lenders during the period in which the program is under discussion.

Pending the development of this program, I hope that no further attempt will be made to change the interest rate pattern, and that unquestioned stability in the Government security market, which is imperative at this critical time for the financing of the defense effort, will be maintained.