BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

July 19, 1950.

Dear Charlie:

I would like to call to your attention the enclosed copy of a letter which I have sent to the Council of Economic Advisers in connection with their proposed economic report. In my judgment, it would be most unfortunate if the substance of the paragraph to which I have taken particular exception remained in the report.

With warmest regards,

Sincerely,

Tom

Thomas B. McCabe.

Mr. Charles S. Murphy,
Administrative Assistant
to the President,
The White House,
Washington, D. C.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

July 19, 1950.

Honorable Leon H. Keyserling, Chairman,
Council of Economic Advisers,
Executive Office of the President,
Washington 25, D. C.

Dear Leon:

I am returning the galley proofs of the President's Economic Report and of the Council's Review, which you sent over late yesterday morning. Our suggestions, which are directed mainly to strengthening the tone in the light of the rapidly changing international situation, and also with a view to the legislative recommendations, are noted in the margins. You will want to give particular attention to our suggestion regarding the wording of your recommendation for additional power over bank reserve requirements, since this item is not provided for in the draft emergency legislation to be submitted.

I wish to register vigorous protest over the insertion of the first full paragraph on galley 34 which reads as follows:

> Monetary and fiscal policy should be oriented to the needs of the Treasury, which sells tens of millions of Government securities every quarter year just to refund maturing debt even when the budget is in balance, and during the next few months must also resort to fairly heavy deficit financing while awaiting the growth in revenues. The Treasury should have access to a market where interest rates are low and where credit is easy. A cheap money market is also an easy money market, and we have learned that it is desirable for monetary and fiscal policies to create and maintain that kind of money market. To increase discount rates under present circumstances would not be desirable.

This paragraph deals with future monetary policy, the determination of which is vested by the Congress in the Board of Governors of the Federal Reserve System. Furthermore, its tenor is inconsistent with the President's program to combat inflationary tendencies and with the Council's reiterated recommendation that

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authority to raise bank reserve requirements be increased. The exercise of that authority would necessarily tighten the money market and raise interest rates. In my judgment, it would be most unwise for the Council to make a public pronouncement on a subject on which there may be future policy action by the System, a pronouncement, furthermore, which is inconsistent with its own report. This would appear as an attempt to commit the Board of Governors in advance with respect to discount rate policy and might be very disturbing to the market for Treasury securities at this critical time.

In view of the special nature of the pronouncement in this paragraph, I would have thought that particular care would have been taken to bring the pronouncement to my attention in the letter transmitting the Council's report. In a document as long as this, for which we are given only twenty-four hours for final review, this important paragraph could easily have escaped our notice, particularly since it had not been contained in the earlier draft of the Council's report.

Sincerely yours,

COPY

Thomas B. McCabe,
Chairman.

Enclosure