February 26, 1951

MEETING IN CABINET ROOM
WHITE HOUSE
11:00 A.M.-12:00 M.

Present - The President in the Chair
Mr. C. E. Wilson, Director, Office of Defense Mobilization
Mr. Leon Keyserling, Chairman, Council of Economic Advisers
Mr. John D. Clark, Council of Economic Advisers
Mr. Roy Blau, Council of Economic Advisers
Mr. Harry McDonald, Chairman, SEC
Mr. Thomas McCabe, Chairman, FRB
Mr. Allan Sproul, President, New York Federal Reserve
Mr. Edward Foley, Under Secretary of Treasury
Mr. Wm. McC. Martin, Jr., Assistant Secretary of Treasury
Mr. Charles Murphy, White House Staff
Mr. David Bell, White House Staff

The President opened the meeting in the most pleasant and conciliatory manner, and stated that he had been worried with this problem for some time and wished to get this group together for the purpose of frank and open discussion of the problems. He said that the RFC (obviously mis-spoken as he clearly intended the CEA) and the Treasury Staff had been working on some ideas which seemed to him to make a lot of sense and so he wanted to take the liberty of reading them to the group.

This he did, very clearly and with emphasis on certain points, such as the importance of the public credit of the United States, which he said several times was vital to Mr. Wilson's work, and so important that unless it were maintained the Russians would have achieved their purpose completely. Mr. Wilson nodded agreement.

After the President finished, he said that he wanted frank and open discussion of the ideas in the memorandum.

Mr. McDonald opened the discussion by passing around a memorandum on the volume of new securities and indicating that Municipal financing in particular had boomed. The President thought this very interesting.

Mr. Clark spoke next. He said the President's comments made good sense to him and recalled historical situations, such as the one calling for the creation of the Federal Reserve System and the Banking Act of 1933. He felt we might have a similar type of situation today and the powers required to meet the current problem should be studied. He thought the Treasury position in the matter of interest rates sound and appropriate in the light of mobilization efforts and the Federal Reserve certainly ought not to drive rates up by selling in the market and should work with the Treasury to keep confidence in a stable orderly market and that later in the year after tax receipts which were going to be large wherein more money for investment would appear and the financing problem would be possible of solution at current levels.

Mr. Sproul spoke next. He stated there was no disagreement on maintaining the credit of the government. If the Federal Reserve had anything to reproach itself on to date, it was the dilatory actions it had taken to restrict bank reserves. The System should have stopped net-buying governments on the scale it has been doing so long ago. This, he said, under current conditions, was monetizing the debt in a way which strained the conscience of the Open Market Committee with respect to their responsibilities. He did not think the actions contemplated by the Committee would impair confidence in the markets as most of these securities were marketable and held by experienced investors who were used to the hazards of the market and expected it. In fact, he was of the opinion that elimination of existing artificialities and more dependence on the market itself would generate confidence and improve the outlook for the refinancing and new money issues which the Treasury would be faced with later in the year.

Mr. McCabe spoke next. He started off by stressing the element of time. He was interested in the memorandum the President had read from, and he would be particularly pleased to have the support of other agencies of the Government for increased reserve requirements. Up to date, he had never been able to obtain any support for this. However, he was concerned at the moment with the necessity for making a decision on operations in the market for which the Open Market Committee was pressing.

He then spoke of the fine work that had been done by Bill Martin and Win Riefler in trying to see if there was an area of agreement that could be worked out. He thought both Treasury and Federal Reserve were opposed to monetization of debt and they ought to be able to get together on a program.

He stressed the fact that life insurance companies and corporations and other large non-banking investors had purchased the long-term restricteds at par and now were in a position to cash them in at a handsome profit to make good on their commitments, while purchasers of savings bonds could only cash in their securities at the face price and by sacrificing the interest to maturity.

He wanted to emphasize to the President the clear purpose of the Open Market Committee to maintain an orderly and stable market but to depend as far as possible on the judgment of the market itself. The Federal Reserve had a statutory responsibility given to it by Congress, and he felt that they must act on their judgment in the matter and despite his best efforts, he had been unable to arrive at an understanding with the Secretary of the Treasury, who is now in the hospital. He was very sorry the Secretary was in the hospital, but thought that time was very important and they ought not to be asked to delay indefinitely. Mr. Foley had called him and suggested that they might delay two weeks which, coming on top of a previous delay of two weeks, meant roughly thirty days without any action. He urged the President to appreciate how sincere they were in endeavoring to stop inflation and protect the purchasing power of the dollar but how apprehensive they were about the way things were developing.

Mr. Foley spoke next. He said he wanted to clarify a point Mr. McCabe had made with respect to the Secretary which was perhaps due to a misunderstanding. It was possible the Secretary might be able to engage in negotiations before two weeks were up but he had expressed to Mr. McCabe, whom he had tried to get repeatedly over the weekend without success until late Sunday evening, how anxious he was not to upset the Secretary unduly. On Friday neither he nor Mr. Martin had been able to see the Secretary as there was some evidence that a possible hemorrhage might occur in the eye and the Doctors refused to permit anyone to see him. The constant visits for instructions which he and Mr. Martin and others in the Treasury had been forced to make during the past week had unquestionably retarded his recovery and in asking for two weeks time of Mr. McCabe, he was merely making an estimate of what he thought would be desirable without intending to close the door to negotiations more immediately.

He then stated the Treasury's fear that lowering the pegs in the long-term restricted issues would unsettle the market, bring an avalanche of selling, and seriously impair public confidence in the issues. He said the debt was very large and that we were very apprehensive of creating any unnecessary danger which would make it difficult to refinance or obtain new money. He pointed out that the debt was now $257 million and a panic in the market would be a catastrophe.

He stated that the conversations which had been conducted at the technical levels appeared to be making some progress and there was a fine spirit of cooperation and good will on both sides. He hoped that these could be continued and that ultimately they might be brought to a successful understanding which would benefit both the Treasury and the Federal. He thought it vital that everything possible be done to maintain stability in the market.

Mr. Keyserling spoke next. He said he had listened carefully to what had been said by his colleague Mr. Clark, Mr. Sproul, Mr. McCabe, and Mr. Foley and without commenting on what had been said, he wanted the President to know that he didn't think the problem was being faced. He felt that it was important to determine whether there was a forum or vehicle by which two clearly opposing positions could be resolved by men of good will. He took that to be the purpose of this meeting, and he thought it important that a real effort be made to work out this specific problem.

The President then commented that he thought it was very important to work it out and was very vital to Mr. Wilson's work, and he was very anxious to get everybody together -- that's why he was asking for this frank discussion. He was not trying to reach a decision today but hoped this would not work out the way Wage Stabilization did where a fight had developed with everyone resigning. He didn't want to take arbitrary action, but he had certain powers and there came a point when he would have to exercise them.

Mr. Wilson spoke up -- said he didn't think it was necessary to delay this matter too long, and he wondered if we couldn't contact the Secretary of the Treasury about this particular matter promptly. Mr. Foley interjected that he was sure that could be done, and he hoped that if Mr. Wilson would undertake to get the ball in motion and get the task forces or subcommittees set up, he knew the Secretary would be most appreciative.

There seemed to be general agreement that this would be a good idea and the meeting broke up a little after twelve with the President asking that an effort be made to report to him as promptly as possible.

Wm. McC. Martin, Jr.