

Burns sends Nixon an excerpt
of a speech of his to defend Fed policy.

MIN 107
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November 24, 1971

Dear Mr. President:

I fully understand your interest in the question of what is happening to the money supply, and I have already informed you confidentially of the policy that I have set in motion.

You may also be interested in what I recently stated publicly (November 11, 1971) in an address at the New York Stock Exchange:

"The financial climate in our country is broadly conducive to business expansion.

"The commercial banks are in a highly liquid condition, as is clear from the fact that they have increased their holdings of marketable securities by over \$35 billion since the end of 1969, besides making massive repayments of their borrowing in the Euro-dollar market and decreasing their indebtedness to the Federal Reserve banks.

"The savings and loan associations and mutual savings banks are enjoying record savings inflows. Their gains in the first 10 months of this year total \$31 billion, compared with \$16 billion in all of 1970 and \$7 billion in all of 1969.

"The liquidity of non-financial businesses--as evidenced by the ratio of quick assets to total current liabilities--has also been rising since the middle of 1970.

"Moreover, the inflation premium in interest rates is in process of being squeezed out. Interest rates have fallen sharply since mid-August and yesterday's decline in the discount rate recognized that fact.

"Finally, I can assure you that monetary policy will continue to foster orderly economic expansion.

"The growth of the narrowly defined money supply-- that is, currency in circulation plus demand deposits in public hands--has been at a 7% annual rate from December 1970 to October 1971. True, growth in this narrowly defined money supply has slowed in the past few months. However, broader measures of money continue to show moderate expansion.

"Some observers have projected the recent slow growth of the narrowly defined money supply into the future, and they have expressed concern. What these observers fail to recognize is that the recent slow growth is a temporary departure from a longer run moderate growth path. The only responsible projection that can be made about Federal Reserve policy is that the System will provide adequate reserves to finance a vigorous, but sustainable, expansion."

W. Underhill

Sincerely yours,

Arthur F. Burns

The Honorable Richard Nixon
The President of the United States
The White House
Washington, D. C.