

Nixon incoming 1968-80

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THE WHITE HOUSE
WASHINGTON

November 4, 1971 in 1959-60, Nixon

Nixon pressures Burns
to ease monetary policy,
drawing parallels to Martin.
Says that inflation is
irrelevant for winning
elections.

EYES ONLY

Dear Arthur:

I was deeply concerned by a story in the New York Times by Leonard Silk. I realize at the outset that, to put it mildly, he is not particularly a supporter of the Administration's policies. But as I read the story and absorbed it I could see clearly that he was gloating over the fact that the money supply had not been rising (I believe it has been four months now since the money supply has gone up to any substantial degree), and then he proceeded to point out that one possible reason for this phenomenon was that I had made the mistake of putting you in charge of the Committee on Interest Rates. Obviously, anyone who is concerned primarily about keeping interest rates down is not going to be interested in letting the money supply go up. ?

I am not suggesting for one moment that I buy Silk's analysis entirely. However, I would be less than honest with you if I were not to say that I have been flooded with calls since the meeting of the Quadriad from people in Wall Street for whose judgments I have the greatest respect with regard to the Fed's policy of holding the money supply down for too long a period. In fact, two of those who called me from Wall Street - without any prompting on my part - pointed out that this is exactly what happened in 1959 and 1960, when as you recall, you came into the office and criticized McChesney Martin for keeping the lid on too tight and, thereby, helping to trigger the unemployment increase which was probably the decisive factor in our defeat in November of 1960.

I know that you are completely convinced that your policy is not only right but is in the long term interests of the economy and of our goal of assuring the success of this Administration's economic policies.

EYES ONLY

★ However I must register with you, as strongly as I possibly can, my concern that what really determines the result of an election is not interest rates or rises in the cost of living but the unemployment statistics around election time. Many elections in this country have been determined because of an increase in unemployment which resulted in the voters turning out the party in power. I cannot think of one election where inflation had any effect whatever in determining the result.

This does not suggest that we should not be concerned about inflation - not only for the long haul but even for the short haul. On the other hand, there is no doubt in my mind whatever that if the Fed continues to keep the lid on with regard to increases in the money supply and if the economy does not expand as you, along with most other respected economists, have predicted in 1972 the blame will be put squarely on the Fed for holding the lid on too long -- just as, in my opinion, it was very properly put on the Fed in 1960.

I have studied the charts that you left with me and I have the greatest respect for the point of view that you have expressed on this subject. I am not sending copies of this letter to anybody else in the Quadriad because I think this has to be between me and you. As a matter of fact, I am not going to discuss the subject with Connally. But I do want you to know that there is nothing I feel stronger on than this money supply problem and that the crescendo of complaints that I have been receiving, not only from the New York financial community but from other places in the country (I received calls from Los Angeles, San Francisco, St. Louis, Chicago and Atlanta, just to mention a few, over the past few days expressing the same concern) convinces me that you owe it to yourself, as well as to our goal of getting the economy to move smartly up in the months ahead, to re-evaluate your decision with regard to

EYES ONLY

holding the money supply down and to take some action to move it up before we get a lot of economists writing as Silk has and then having to move because they urged us to rather than on our own initiatives.

Sincerely,

A handwritten signature in dark ink, appearing to be 'A. Burns', enclosed within a circular loop with a long horizontal tail extending to the right.

The Honorable Arthur F. Burns
Chairman
Board of Governors
Federal Reserve System
Washington, D. C.