

B-N1
Nixon incoming 1968-80

THE WHITE HOUSE
WASHINGTON

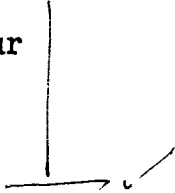
January 28, 1972


Nixon pushes for ease
and attacks Brimmer
and Hayes, promising to
support Burns' efforts


EYES ONLY

Dear Arthur:

After the meeting of the Quadriad I have some random conclusions that I would like to pass on to you for your eyes only.

First, it is crystal clear that you have done everything in your power to increase the money supply to meet the objectives that we have for a strong economy in 1972. On the other hand, as you pointed out, as far as the M_1 figure, which you spoke to me about with great intensity in early 1960 is concerned, you think the record in the 4th quarter was disappointing. 

I realize that this is not your fault. You can be sure that I will do everything possible to see that we get another member of the Board who will follow your leadership and still maintain the independence that we all agree is essential. I have personally asked Bill Rogers to see what he can do about the Brimmer matter. 

The other point which concerns me involves the New York Bank. As you know, I have long felt that whether because of politics or because of his close identification with the banking community, Hayes is just not going to follow your leadership, particularly when it runs contrary to the interests of the banks or even of our political interests. I was talking just yesterday to a member of the New York banking community who must remain nameless. He may be wrong or unfair, but he says that Hayes will definitely not follow your leadership and that when the chips are down he will opt for the interests of the bankers and if those interests happen to coincide with the interests of our political opponents, with their interests. 

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It is very difficult to believe that anyone in Hayes' position could do this. But we must face a stark fact -- much as we respect Bill Martin as a man -- his management of the Fed in the 1959-60 period was disastrous as far as we were concerned. I know you share this view because of the conversations we had at that time. It seems to me now that it is very possible that Martin might have had good intentions but simply couldn't do anything about it because of the fact that he did not really control the Board and because of the enormous influence the New York Bank had over his decisions.

I realize the preciseness of your argument that the problem is not money supply but the panicky, timid attitude of bankers who with adequate supplies of money simply will not take the risks that would result in an expanding economy. I frankly would go much further than you. Bankers, as a group, thrive on high interest rates and they really don't give a damn what happens to the economy provided they make profits. They would just as soon see interest rates come back to a higher level regardless of the consequences as far as the economy is concerned.

We cannot accept this kind of obstructionist attitude. When the history of the year 1972 is written I do not want to give our opponents any chance to say that part of the reason for the economy not moving as fast as it should was our failure to move the money supply -- particularly the M_1 ingredient of it -- as fast as we should.

You have given me an absolute assurance that the money supply will move adequately to fuel an expanding economy in 1972. As you know, I have absolute confidence in this pledge that you have made. I realize that there is some ~~merit to your~~ contention that the problem is not just money supply but confidence among the business and banking leaders. If, however, the Fed does not aggressively and imaginatively move forward on the money supply front you can be sure that in retrospect all these theological arguments with regard to who is at fault will go out the window.

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We come down to the fundamental point that if the Fed is not able to move the money supply up vigorously and aggressively in the first quarter of this year, the Fed in general and you as its leader will inevitably get a major share of the blame. |

What could happen out of all of this is that a major attack on the independence of the Fed will eventually develop. I do not want this to happen -- particularly I do not want it to happen when the Chairman of the Fed is a man in whom I have such enormous confidence and for whose economic advice I have such great respect. ✓ |

It will, of course, be easy for you to follow the course that Bill Martin did. He always blamed the budget or the attitudes of the business community or any other scapegoat he could find for the failure of the economy to move while he was in charge. But in retrospect, you and I know that he and his colleagues on the Fed at that time have to assume a major part of the blame. |

I shall do everything on my part to see that you have the support that you need both on the Board and otherwise to take the aggressive leadership position in moving the money supply which I think is essential during this year. But what I cannot emphasize too strongly, is that if we fail to do so it will not be helpful later for speeches to be made and long papers to be written and for columnists to speak out to the effect that the Fed was in no way responsible. This will not be the case -- * we shall all be responsible. I just want to be sure that you, as Chairman of the Fed, are in a position where instead of having to make speeches and write papers a year from now indicating why you were not at fault and putting the blame on confidence among the bankers, the business community, the international monetary set, etc., you can say with complete credibility that the Fed did its part all the way. |||

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What this really comes down to is that you are really going to have to move on the New York Bank. I don't know how you can accomplish that but whatever you need to do you can be sure you have my support. Just remember that all the fashionable arguments as to who was at fault aren't going to make any difference at all if we fail. Let's just be sure that the Fed, under your leadership, cannot be charged with the head-in-the-sand attitude of the Martin regime.

With best wishes,

Sincerely,



Honorable Arthur F. Burns
Chairman
Board of Governors
Federal Reserve System
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P.S. One of the most telling points that you made at the Quadriad meeting was that bankers basically, as a lot, are panicky, timid and utterly selfish. This does not mean that there are not individuals who do not fit that description. What is important is that we not allow the bankers, whether they are American or international, to be responsible for cooling the economy at a time that it may finally be seeing the

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upturn that we all want. What we also must remember is that the new economic policy was one that you strongly urged -- particularly the wage-price control aspect of it. Having done everything that we could do in those areas, we cannot now find others on whom to place the blame in case things don't move as we expect them to move or want them to move. I could not agree more that the problem of confidence is a very deep and basic one. But if the Fed in general and you in particular do not, through your aggressive and expansionary monetary policies, display confidence to the ultimate, you can be sure that the timid, little men who run the great banks of this country will have even less confidence than they presently display.

my interpretation of
the scribble



Nixon gave absolute assurance! What nonsense!
No answer to be made to this letter. It's outrageous.

Now I am absolute
and that
nonsense!
No answer
to be made to this
letter. It's outrageous.