November 1, 1950.

Dear Chester:

I am sorry I did not get an opportunity to have more of a visit with you while you were here recently attending the meetings of the Federal Open Market Committee and the Presidents' Conference.

Since you left Washington I have read your address before the National Industrial Conference Board and I want to commend you upon your excellent address. It is a fine exposé of the inflationary pressures which confront the country, the reasons for this situation and what can and ought to be done about it. There cannot be too much said about the seriousness of the economic problems which confront the country today due to the international crisis which our leadership has permitted to develop. Keep up the good work!

With warm personal regards,

Sincerely,

Mr. Chester C. Davis, President,
Federal Reserve Bank of St. Louis,
St. Louis 2, Missouri.

VE:dls

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FEDERAL RESERVE BANK OF ST. LOUIS

ST. LOUIS 2, MISSOURI

OFFICE OF
THE PRESIDENT

December 4, 1950

Honorable Marriner S. Eccles,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Marriner:

It was a real disappointment to me not to be able to get in for a good visit with you while I was in Washington, particularly in view of some of the rumors that were going around about your prospective resignation. You know how I feel about that. I had intended to try to catch you for a few minutes Wednesday afternoon if you were free, but I had to see Matt, Jake Vardaman, Sam Carpenter and Dale Lewis, and by the time I got through with them I had to run for the plane.

I am certainly glad you took time to read the N.I.C.B. talk and that you found it worthwhile. Knowing how much reading matter crosses your desk and how much more you know of this particular subject than I ever will, I treasure your comment particularly.

No matter what changes the next year may bring to both of us, I want to express the hope that some place, some day, you and I may find ourselves up in the Rockies somewhere together with nothing on our minds but the fish, the scenery and good company.

Always your admirer,

Chester

Chester C. Davis.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 29, 1950

To Governor Eccles

From Mr. Cheadle

Subject: Address by Chester C. Davis before the 317th meeting of the National Industrial Conference Board

This is to comment on the excellent speech made by Mr. Chester C. Davis before the National Industrial Conference Board meeting in Chicago on November 16, 1950.

After briefly describing the prospects and factors that make for a further intensification of inflationary pressures, Mr. Davis turned to consideration of ways in which these pressures could be contained.

Direct controls should be avoided since, "Price and wage controls by themselves do not stop inflation. They may conceal and defer the effects of inflation, but sooner or later, if the fundamental causes of inflation are not dealt with, there will be an explosion."

Inflation develops, says Mr. Davis, "when the rate of flow of spending exceeds the rate of flow of goods and services into the market." The inflationary process can be attacked on two sides--either the rate of flow of civilian goods and services can be increased or the rate of growth of purchasing power can be restrained. Since it is not possible to increase the supply of goods in the forseeable future, inflation can only be contained by action on the money supply.

Mr. Davis then lists several ways in which action can be taken on the money supply:

1. Voluntary self-restraint
2. Reduction of non-military spending
3. Taxation to meet military costs as nearly as possible on a pay-as-you-go basis
4. A restrictive monetary policy

After briefly discussing the first three items, Mr. Davis presented simply but very effectively the case for a restrictive monetary policy. The process by which bank credit expands and contracts and the effect of such changes on the money supply are by no means simple to explain or understand. It's a whole lot easier, Mr. Davis said, just to cuss out the Federal Reserve and let it go at that. Statements have been made "to the effect that the Federal Reserve System thinks it can keep people from borrowing by raising interest rates a fraction of one per cent. That is a complete misinterpretation of the System position. The rise in rates may have no effect whatsoever on the demand for credit, but it does reduce the availability of credit and that is exactly what the present and prospective situation seems to call for."

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Since rising interest rates apply to Government securities as well as to private securities and private loans, an increase in rates increases the cost to the Government of carrying the public debt. Concern over the cost of servicing the vast public debt is easy to understand and explain. "But the issue is by no means one-sided, and should be weighed calmly, openly, and objectively and good-naturedly as possible." ..."The Federal Reserve believes that (an increase in Government rates) is part of the price to regain control over the rate of expansion of bank credit." Increased cost to the Government, which could be counted in the millions, "should be weighed against the total cost to the Government and the public involved in further inflation, which would be counted in billions paid in increased prices for each percentage point the price level goes up."

In summing up the case for monetary and fiscal controls, Mr. Davis pointed out that "there is a relationship between....a program of general monetary restriction...and the preservation of individual choice and freedom. General controls leave freedom of business choice and decision to the individual; direct controls...do not. Pointing out that "there is an increasing demand for a more controlled economy...among all segments of the American people.... It is an ironic exaggeration, perhaps, to observe that the so-called economic planners at present constitute the main vocal group now speaking against all-out direct controls, and in favor of a general anti-inflation program that will tend to preserve individual freedom."

HLL

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