

UNITED STATES SENATE

Committee on Banking and Currency

February 7, 1951

Dear Mr. Vardaman:

This will acknowledge receipt of your statement of February 5, 1951 and the attached memorandum requesting any comment that I might care to make.

The first part of your statement relates to your version of what took place at the January 31st conference between the President and the Federal Open Market Committee. Naturally, I cannot determine whether your report of that conference or the report of Governor Evans is correct. However, the aftermath of confusion which has followed a conference intended to clarify matters convinces me that the President has failed to grasp the basic issues of fiscal policy which are at the bottom of the dispute between the Treasury and the Federal Reserve Board.

Your statement makes it clear that you feel that the Board should support the financing and bond program advocated by Secretary Snyder. If this opinion is based on economic rather than legal considerations, I do not question your right to advance it. My own view is that the Treasury's fiscal policies will result in disastrous inflation. Since May, 1950, the Board's holdings of government securities have increased by \$3,500,000,000 which in turn has led to a six-fold expansion of credit. The proposal that the Board should continue to support the Treasury's cheap money policies has been accurately described by Mr. Henry Hazlitt as "fighting fire with gasoline."

The concluding paragraph of your statement is one of the most amazing ever uttered by a public official in recent years. You say, "The question of statutory prerogatives . . . should be subordinated to the all important necessity of supporting the Government and the Presidency in this national emergency." The meaning of this euphemism is that the laws passed by Congress should be disregarded whenever the President feels that the national emergency so requires. I am unalterably opposed to that sort of totalitarian philosophy either in war or in peace.

You also say in the final paragraph of your statement that you "unhesitatingly waive any theoretical statutory authority and prerogatives in order to support the Government and the Presidency at this time." First, I would like to point out that the laws of the United States are not "theoretical" for 150,000,000 American people. They must obey them or go to jail. By what right do you presume to waive statutory authority in violation of your oath of office?

Finally, I invite your attention to the fact that the Federal Reserve System is accountable to the Congress and not to the Presidency as you suggest. Congress has not charged the Board with the duty of supporting the price of government securities, but rather with the duty of supporting the value of the dollar.

Until such time as the duties of the Board may be changed by Act of Congress, I trust that you will see the impropriety of your suggested waiver of statutory authority and prerogatives.

Sincerely yours,

(Signed) John W. Bricker

The Honorable James K. Vardaman, Jr.  
Board of Governors  
Federal Reserve System  
Washington, D. C.

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