United States Senate

COMMITTEE ON BANKING AND CURRENCY

January 30, 1951a.

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

Dear Governor:

That was a fine statement you made before the Joint Committee on the Economic Report on the 25th and I appreciate your kindness in sending me a copy of it. Walter Lippmann will have an article in the February issue of Atlantic Monthly recommending that Germany be a neutral nation. I think that an unarmed neutral nation would be the last thing that Germany would want to be but I can well believe that Germany would like to be treated as a nation and not as a subjugated area and she would like to take adequate steps for self-defense.

I endorse your proposal for a balanced budget but one way to balance the budget is to cut out a lot of unnecessary domestic spending. Therefore, I could not endorse a program of sixteen billion dollars of new taxes or an addition of eight billion dollars to personal income taxes. I have heard that the President proposes to increase income taxes by seven and a half billion dollars but that would put the rates far above the top of the last war and, in my opinion, be entirely too burdensome. And I think you are very optimistic to think that there are three billion dollars worth of loopholes in the corporate field. I am inclined to believe that in your youth you read Thoreau's statement "To him whose vigorous and elastic mind keeps pace with the sun the day is a perpetual morning".

Sincerely yours,

Willis

A. Willis Robertson

United States Senate

COMMITTEE ON BANKING AND CURRENCY

February 9, 1951e

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

Dear Governor:

I was pleased to receive your letter of the 5th and have read the statement you enclosed from the Chicago economists. While there is no doubt about the fact that when the Open Market Committee buys securities in excess of sales such transactions set up bank credit with an inflationary effect. However, I am not at the moment prepared to accept without question the dogmatic statement of the Chicago economists that all of the inflation that we have had during the past six months was solely attributable to the purchase by the Federal Reserve Board of securities some three and a half billion in excess of sales. In my opinion there might well be other factors.

However, I am personally in full accord with your position over the fundamental issue, namely, that Congress did not intend for the central bank to be used by any President as a rubber stamp in plans for management of the national debt and irrespective of the views of the Federal Reserve Board of the inflationary effect of a given proposal. Congress intended for the Federal Reserve Board not only to control the operation of national banks and to assist them when they needed money but likewise to exercise a measure of control over the supply of money and credit. It necessarily follows that if the Federal Reserve Board is forced to buy an unlimited amount of Government securities which were purchased by banks and other institutions on the basis of a yield which later proves to be less profitable than commercial loans the Federal Reserve Board loses all control over credit.

My earnest hope, however, is that an area of agreement can be worked out between the Federal Reserve Board and the Treasury Department through conferences and mutual concessions by means of which the current conflict can be resolved on the basis of general welfare and without the necessity of Congressional hearings on the issue.

With kind regards, I am

Sincerely yours,

A. Willis Robertson

February 20, 1951.

Honorable A. Willis Robertson,
United States Senate,
Washington 25, D. C.

My dear Senator Robertson:

Please excuse my delay in answering your thoughtful letters of January 30 and February 9. As you can understand, we have been rather fully occupied on matters requiring immediate attention during the past two weeks. I appreciate your expression of agreement with our position, particularly because I know that it reflects years of study of Federal Reserve matters and especially careful consideration of the present situation. With your background and your basic philosophy, as I understand it, you would be fully aware of the Congressional intent that the Federal Reserve should conduct its operations with a view to the supply of money and credit needed by the economy and not for the primary purpose of financing the Treasury at rates of interest below normal market rates.

I would agree with you that the Chicago economists overstated somewhat the possible influence of monetary policy. While it is possible that restrictive credit measures might have entirely prevented the price rise that has occurred in recent months, under the circumstances they might have had to be excessively drastic. I am convinced, however, that a substantial part of the rise could have been prevented by appropriate credit policies. Many of the forces tending to bring about price increases, as you indicated, could not have been offset by credit policies, for example, the more active use of existing deposits to buy goods. On the other hand, there were important factors working against a price rise, the effects of which were offset by credit expansion. Among these were the promptly enacted increase in taxes and the Government's surplus. Another was the outflow of gold.

The bank loan expansion appears to be continuing even though this would normally be a period of loan contraction. In addition, insurance companies and savings banks are selling substantial amounts of long-term bonds to the Federal Reserve to obtain funds to make loans on mortgages and to corporations. Restrictive policies continue to be essential.

For this reason, I am sorry that there is delay in enacting the new tax bill. I agree with you that every effort should be made to reduce expenditures and until that is done it is difficult to determine the total amount of taxes needed. We know, however, that a large amount will be needed and that buying power should be curtailed promptly. The excise taxes need immediate enactment because their imminence is stimulating anticipatory buying.

Finally, I should like to say, in response to your suggestion, that we are exceedingly anxious to work out cooperative arrangements with the Treasury whereby through conferences and mutual agreements conflicting policies can be avoided. We have been endeavoring for years to avoid conflicts and in doing so have often, against our better judgment, adopted policies that have proved not to be in the best interests of the country. We believe that it should not be necessary to bring such matters before the President or Congress. I am sure you will agree, however, that we would not be true to our oaths of office if we should adopt policies which we are convinced would be in violation of our statutory responsibilities and seriously detrimental to the general welfare.

Sincerely yours,

M. S. Eccles.

United States Senate

COMMITTEE ON BANKING AND CURRENCY

February 21, 1951a.

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

Dear Governor Eccles:

Thank you so much for your nice letter of the 20th. I am still hopeful that an area of agreement can be reached between your Board and the Treasury Department.

With kindest regards, I am

Sincerely yours,

A. Willis Robertson