February 5, 1951.

Mr. John Evans, President,
The First National Bank of Denver,
Denver, Colorado.

Dear John:

Thanks for sending on your Report to the 86th Annual Meeting of the First National Bank of Denver. I was very much pleased with and encouraged by some of the observations in the Report. We can win in this fight against inflation and retain our essential freedoms only if responsible people like yourself assume a vigorous and intelligent leadership.

As you know, I have for some time maintained that if the Open Market Committee is not to be permitted to act in times like these that the Federal Reserve System should be given authority to require banks to hold temporarily a special reserve consisting of short-term Government securities. I have favored short-term Governments as a special reserve rather than Government securities of all maturities principally because of the large amounts of banks' holdings of all maturities. In these circumstances a special reserve consisting of all maturities would have to be very high in order to be effective.

Again let me thank you, John, for sending on the Report and again let me express my appreciation for your interest and concern in our common problems.

With kindest regards,

Sincerely yours,

M. S. Eccles.

VE:dls

Rest of correspondence sent to Gen. files

February 2, 1951

Governor Eccles

Mr. Anderson and Mr. Cheadle

Mr. Evans, President of the First National Bank of Denver sees the problem as follows:

"Through the critical period ahead, the maintenance at highest level of the credit of the United States is of transcendent importance. The maintenance of the purchasing power of its dollar as measured in food, clothing and shelter is an essential element of such credit. Ownership by 6,885 member banks, in accordance with their respective needs, of open-market eligible Government obligations, as the most desirable form in which to hold secondary reserves, should be of greatest assistance to the Treasury in sustaining that credit and to the Reserve System itself in furnishing a broader market for such securities, than if they had to bear that burden alone."

In these circumstances Mr. Evans suggests that:

"It therefore appears that the interests of the Treasury, the Federal Reserve System and all member banks would be better served and that the inflationary spiral could be more effectively restrained if, in lieu of increasing cash reserves, member banks were required to hold any open-market eligible United States Government securities of their individual choosing in a secondary reserve of sufficient proportions to enforce such restriction in bank lending power as the Board of Governors from time to time should determine. Such a secondary reserve could be fixed at once at such a percentage of deposits as would stop the excessive lending practices of certain banks, overly-ambitious for growth and for earnings, which have contributed far more than others to the inflationary spiral."

However, Mr. Evans feels that:

"Monetary controls if applied in time are preventive in nature but cannot alone stop a wage-price spiral nor protect the public from the cruel hardships of inflation. Direct controls applied to one phase of economic activity can accomplish little unless all aspects of the economy are similarly controlled. In the face of the National emergency, direct control of prices and wages as well as allocations seem inevitable.

Even more drastic federal taxation than is now in effect seems essential to enable the Government to meet expenditures for the defense of the country, as far as is possible, upon a pay-as-you-go basis. These additional taxes, as an anti-inflationary measure, should be designed to absorb a larger portion of the spending power of each and every citizen."

With regard to Mr. Evans' proposal that the secondary or special reserve be in the form of any open-market eligible United States Government security of their (banks) individual choosing it should be remarked that such a reserve would have to be very high to be effective. Member bank holdings of Government securities equaled 70 per cent of their demand deposits and 50 per cent of total deposits on the October call date. Although the secondary requirement would not have to be this high, it could not be very much lower and retain effectiveness.

I do not think that putting the economy into the harness that Mr. Evans suggests is required or desirable for reasons that closely accompany your own.

PA:HLC:gm