EUGENE WHITTINGTON
OKLAHOMA CITY

Hales Building
February 13, 1951

My dear Mr. Eccles:

Enclosed is a copy of a letter, together with a chart which I have sent to each of the Members of the Senate Standing Committee on Banking and Currency.

Is it possible that Mr. Snyder is really so unaware of the effect interest rates had on inflation during the period he referred to, or does he have some explanation other than that I have advanced for what occurred in this period?

I should like very much to have your comments.

Sincerely,

Eugene Whittington

Eugene Whittington
EW:mel
Enclosures

Mr. Marriner Eccles
Federal Reserve Bank
Washington, D. C.

(COPY)

EUGENE WHITTINGTON
OKLAHOMA CITY

Hales Building
February 14, 1951

Dear Sir:

In the New York Times the other day there appeared an article discussing the concept of higher interest rates, and quoting Mr. Snyder as having said, "Our recent financial history would indicate that in 1919-20 short-term money was available to the Federal Government only at 6 per cent and "call money" went to about 33 per cent. Yet there was no noticeable effect of such rates on inflation, which did not end until the crash. "It was the same again in 1929 when Government short-term money went to 5 per cent. Yet such rates had no apparent effect on the inflationary spiral which continued until it, too, ended in the big crash."

It is difficult to understand how Mr. Snyder concludes that the 1919-20 history supports his contentions. From the enclosed chart it is to be seen that by the end of 1919 prices had begun to go up rapidly. The commodity index rose from 117.5 in December, 1917 to 150. in December, 1919 and the Federal Reserve authorities naturally became exercised about it. On January 1, 1920 the rediscount rate was raised from 4.85, where it had been for eighteen months, to 5.05. Following an acutely climbing commodity price, which went from 150 in January, 1920 to 6.35 in June when commodities began an abrupt fall and by June, 1921 were down to 93.5. Whereupon, the reserve rate began to drop and by August, 1921 was back to 4.40.

The controlling effects of higher interest rates on inflation is thus shown to be most marked. Following this period is to be observed from the chart what was probably the most static period of values in the country's history. Both commodities and the cost of living changed little and remained well in balance for nine years. It is true that stock prices were going up during this period and the Federal Reserve rate raises from 3.50 in September, 1927 to 5.05 in September, 1929 undoubtedly contributed much to the halting and correction of this movement.

I cannot understand how the head of our Treasury Department should appear to make such an egregious error which I imagine any number of his economist assistants could point out to him.

Sincerely,

Eugene Whittington
EW:mel
Enclosure

February 23, 1951

Mr. Eugene Whittington
Hales Building
Oklahoma City, Oklahoma

Dear Mr. Whittington:

Thank you for sending me the copy of your letter to the Members of the Standing Committee on Banking and Currency, which I have read with a great deal of interest.

In connection with the point you make concerning the effectiveness of higher interest rates in curbing inflationary credit expansion, I think you will be interested in the following excerpts from the remarks of the Honorable Sydney Anderson, then Member of Congress from Minnesota and Chairman of the Joint Congressional Commission of Agricultural Inquiry, before the Baltimore Chapter of the American Institute of Banking, and reprinted in full in the Eighth Annual Report of the Federal Reserve Board:

> "Shortly before signing the armistice, when the hope of peace became a practical certainty, there began a short period of temporary business recession accompanied by a very slight contraction of loans and discounts. This lasted, however, only to about April first. Had discount rates been raised sharply and progressively, following this period, much of the expansion, speculation, spending, and extravagance which characterized the postwar period might have been avoided. At this time, however, the flotation of the Victory loan, which it was then thought might amount to $6,000,000,000, was under consideration and the Treasury Department feared that a change in the policy touching discount rates, and in its own policy of selling bonds below the market rates, might result in endangering the loan and perhaps in compelling the refunding of the previous issues as well as in depressing the price of existing private bond issues.
>
> "Thus, the policy of the Federal Reserve Banks touching discount rates was again subordinated to the policy of the Treasury Department in meeting its credit requirements. In

FILE COPY

the absence of the restraining influence of increasing interest rates upon borrowings at the Federal Reserve Banks and as a result of the removal of the restrictions, moral and legal, upon the use of credit, upon production of nonessential commodities and upon consumption generally, there ensued a period of intense business activity, expansion, speculation, and extravagance, the like of which has never before been seen in this country or in the world.

"This period of expansion was characterized by the phenomena which accompany a period of intense business activity preceding a period of business depression. People began to spend freely and extravagantly and in many cases beyond their current incomes. Orders piled up in great numbers and in duplication. Great volumes of debts were made for plant extension, production, and consumption; banks became extended and gradually the reserves of the banks of issue declined toward the legal minimum. Expansion of loans and discounts during the postwar period exceeded 30 per cent, while prices in the same period rose 33 per cent.

"In December, 1919, the Federal Reserve Board and Federal Reserve Banks began to take the action which, in my opinion, should have been taken in the early part of that year. Discount rates were raised slightly in December and more radically and progressively during the early part of 1920. By June, 1920, prices of some commodities had already declined considerably and this was especially true of the farm products of which we produce a surplus in this country. The phenomena which precede periods of industrial depression and business stagnation began to be evident. There developed an exhaustion of current capital and credit. Bankers were forced to stop loaning and then to call loans. Goods were forced on the markets and backed up in the channels of distribution, resulting in increased pressure for loans when credit could not be had except at a high price, and in many instances could not be obtained at all. Orders were canceled. The psychological factors, which in times of intense business activity combined to produce an atmosphere of optimism and to develop a sellers' market, now conspired to produce an atmosphere of pessimism and to develop a buyers' strike. By June, 1921, loans and discounts of national banks had been reduced 12 per cent, Federal Reserve notes 15 per cent, bills discounted and bills bought by Federal Reserve Banks 36 per cent.

"By June 30, 1921, wholesale prices of all commodities had declined 44 per cent and prices of farm products 54 per cent. The tremendous decline in prices of agricultural commodities and the hardships attendant upon this decline, and upon the necessary restrictions of credit imposed during the period, reacted in August and September, 1920, in a demand for amelioration of the discount policy of the Federal Reserve Banks in the direction of lower discount rates. I have no doubt that, if it had been possible to take action to arrest the processes of liquidation at this period without incurring great danger of precipitating a financial crash in the midst of industrial crisis, such action would have been beneficial, particularly from the standpoint of the farmers whose products were hit by price declines with greater force than any others. However, inasmuch as no change in policy took place at this time, an estimate of its effect must be purely speculative. It is clear that any change of policy at this time must have been a sufficiently radical reversal of the existing policy to induce borrowings on the part of member banks and to encourage lending to their customers."

History does have a way of repeating itself, but unfortunately we have a way of forgetting the lessons of the past.

Very truly yours,

M. S. Eccles

CHS

CHS:vjo

EUGENE WHITTINGTON
OKLAHOMA CITY

Receiving not in position to answer yet.

Hales Building
March 6, 1951

My dear Mr. Eccles:

I appreciated your letter of February 23rd, replying to my communication regarding Mr. Snyder's position in connection with his higher interest rates controversy with the Federal Reserve Board.

Saturday there was announced a compromise in this controversy wherein non-negotiable bonds are to be issued at an increased rate of interest. This, I presume, will do away with the possibility of the banks ever using these particular bonds as interest bearing currency. However, I understand the banks only have a few hundred million dollars worth of the 1967-72 Victory 2½s which are to be exchanged for the new bonds. What happens to the other types of bonds the banks have? Will they be allowed to go down in price by the Federal Reserve?

Perhaps it is intended to allow the general market to reach a level in the neighborhood of the 2.75 rate. At least, there is some suggestion of this in the drop in the bond market this morning.

Up to now, the Federal Reserve's power of increasing Federal Reserve discount rates as a brake on inflation has not been as useful as it has been at other times since the banks could get all the cash they wanted by selling their bonds. But can it be used effectively now?

Assuming, of course, that the bond market finds a new level, won't the banks pay higher rates to the Federal Reserve rather than sell bonds at a loss and will not this rather effectively restrict new loans?

It may be that you are not prepared to answer all my questions in this connection but I am hoping you will and I shall be very grateful for your comments.

Very truly yours,

Eugene Whittington

Eugene Whittington
EW:mel

Mr. Marriner S. Eccles
Federal Reserve Bank
Washington, D. C.

March 16, 1951.

Mr. Eugene Whittington,
Hales Building,
Oklahoma City, Oklahoma.

Dear Mr. Whittington:

Thank you for your kind letter of March 6, which I have read with a great deal of interest. It is very gratifying to hear from people like yourself who follow monetary developments closely and who support us in our difficult battle against inflation.

I am sorry that I cannot answer specifically the very important questions which you have raised. I consider it my duty to present as forcefully as I can my views as to the magnitude of the present inflationary problem and the need for solving it immediately, but as a member of the Federal Reserve Board I am not in a position to give you the detailed answers on these confidential policy matters which you desire.

I hope of course, as you do, that the Joint Treasury-Federal Reserve agreement will help us to curb inflationary pressures at this time, and I want to express again my appreciation for your interest.

Very truly yours,

M. S. Eccles.

ERH:mf