

ROGER SHERMAN

W. BUCHEL & BOWERY

AKRON 8, OHIO

Feb 20, 1951

Dear Mr. Eccles:

Why are we waiting?  
Why not increase the  
interest rates?

We are for you —  
please exert all your  
efforts to stop inflation

Roger Sherman

February 27, 1951

Mr. Roger Sherman,  
W. Buchtel & Bowery,  
Akron 8, Ohio.

Dear Mr. Sherman:

In reply to your letter of February 20, I fully agree that all efforts should be exerted to stop inflation. There can be little doubt that inflation is the most serious internal problem facing the country today and that, unless we can prevent inflation from sapping the strength of our democratic institutions, we shall lose the fight against totalitarianism even though our military and foreign policies are successful in maintaining peace.

As to your suggestion that we raise interest rates immediately, that is really not the heart of the problem. What we must do, aside from adopting an adequate tax program, is to curtail the overall growth in credit and the money supply and to curtail it at its source, which is the banking system. This in turn requires restricting the access of banks to Federal Reserve credit through adoption of a flexible rather than a rigid open-market policy. Increases in interest rates would be only an incidental effect of this more flexible policy; the primary effect would be to stop, or greatly reduce, sales of Government securities to the Federal Reserve which provide banks with reserves on which to base a substantial loan expansion.

Very truly yours,

M. S. Eccles.