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memo  
not used  
File Continuum

The present policies of the Open Market Committee are highly inflationary because they add to the already excessive money supply. For the past ten months inflationary pressures have been mounting due to this policy.

The expenditures of the Federal Government have not added to the inflationary pressures during the past year, but on the contrary have been anti-inflationary. That is because it has collected more in taxes than it has expended by approximately one billion dollars. Therefore, the defense expenditures of the Government up to the present time have not been responsible for the inflationary developments.

It is largely the growth of bank credit which has enabled the businesses and individuals to get funds which have brought about the present inflationary situation. This is evidenced by nearly 20 per cent growth in bank loans from May 31, 1950, to the end of the year. In this same period demand deposits and currency increased to approximately  $7\frac{1}{2}$  million dollars, or 8 per cent. This growth in the money supply<sup>is</sup> primarily due to the Federal Reserve's purchases of government securities in its support of the cheap money policy of the Treasury.

If we are to have a sound economic policy it must rest upon a restrictive monetary policy which will prevent the public from adding to the inflationary pressures through the use of bank credit and a fiscal policy which will prevent inflationary pressures from Government deficit spending. So long as the Federal Reserve stands ready to buy government securities in unlimited amounts in accordance with the cheap money policy of the Treasury, all efforts to control inflation must be doomed to failure.

Our future security demands a major defense preparedness program to develop as rapidly as possible. This program is sure to greatly increase inflationary pressures, which can only be held in check by collecting in taxes what the Government spends and stopping the growth of bank credit by adopting restrictive monetary and credit policies.

*should*  
*shall adopt*  
~~To this end I propose that the Federal Reserve should announce that~~  
*a* ~~its policy henceforth shall be to~~ *that will* prevent, so far as it can within the scope of its monetary and credit authority, further growth in the supply of money and credit ~~so~~ *as* long as the inflationary pressures continue even though one of the incidental effects of the policy will be ~~to~~ *an* increase ~~the~~ *in the* interest rate on government securities.