Glenn E. Hoover MILLS COLLEGE OAKLAND 13, CALIFORNIA

Feb. 19,1951

Dear Mr. Eccles:

It is reported that the Reserve System is backing down for fear that the Reserve Banks will be nationalized. I would rather see the System go down fighting. However, I must say that thus far, its anti-inflation program seems both timid and ineffectual. If it needs more power it should roar like a lion until the power is granted. If it doesn't know how to stop the inflation, well .....

Sincerely yours,

Glenn E. Hoover

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MILLS COLLEGE

OAKLAND 13 • CALIFORNIA

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February 15, 1951

Mr. Walter Lippmann
Editorial Dep't.,
New York Herald-Tribune
New York, N.Y.

Dear Mr. Lippmann:

In your syndicated column (OAKLAND TRIBUNE, Feb. 10, 1951) you correctly analyzed the present inflation as follows:

1. It results from an increase of demand deposits by 8% since June 1, 1950. You might have added that there has been an increase in the velocity of circulation of these deposits.

2. This increase was not the result of Federal spending - as is commonly believed. During this period the government took in two billions more than it paid out.

3. The increase in bank loans and deposits was made possible by the fact that the Reserve Banks increased their holdings of government securities by $3.5 billion. This added $3.5 billions to the legal reserves of member banks and thus permitted them to make the loans which added 8% to their deposits.

You suggest that the Reserve Banks should refuse to "buy unlimited amounts of government bonds at essentially fixed prices," because such purchases add to the legal reserves of members banks and make it possible for them to increase their loans and thereby swell their deposits still further. On the other hand Secretary Snyder insists that the Reserve System must "support the market" for government bonds because "the public credit of the United States depends on keeping the price of government securities at the 2½ per cent level."

The Reserve System could, I believe, support the price of government securities, and at the same time halt the expansion of bank deposits - the root cause of inflation. The System should be authorized to gradually increase the legal reserve requirements of banks to whatever level is needed to halt the increase in their loans and deposits. If they continue to sell bonds to the Reserve Banks in order to build up their legal reserves without curtailing their loans, then their reserve requirements should be increased until their supply of government bonds is exhausted.

Such an eventuality seems to frighten most bankers - a notoriously timid class - but many economists are convinced that government bonds might as well be held by the Reserve Banks as by commercial banks. This arrangement should satisfy the Treasury because the interest it would pay to the Reserve Banks would come back to the Treasury, to which the surplus earnings of the Reserve Banks are paid. Nor could the commercial banks complain, because they would sell their government bonds only when they have opportunity to make commercial loans at higher rates of interest than that paid by the government.

Whatever objections may be raised to this plan, it must be admitted that it could be carried through <u>without adding a single employee to the public payroll</u>. It would halt the inflation at its source and thereby make unnecessary the elaborate system of controls we are now imposing on our once free economy. Our problem is to halt the expansion of bank deposits without seriously depressing the market value of our government's securities. This proposal is submitted as a way to attain that double objective.

I trust you will continue to stress the fact that the inflationary pressure from which we suffer arises primarily from the expansion of deposits by the commercial banks. With the hope of contributing to an understanding of that fact I am taking the liberty of sending a few copies of this letter to those who have shown a special interest in the problem of inflation.

Sincerely yours,

Glenn E. Hoover

Glenn E. Hoover

March 12, 1951

Mr. Glenn E. Hoover,
Mills College,
Oakland 13, California.

Dear Mr. Hoover:

Thank you for your note of February 19 and the attached copy of your letter to Walter Lippman, both of which I read with interest.

As you know, I have been very much concerned over the recent inflationary growth in bank credit, and have advocated measures essential to curbing such expansion. In a statement, copy of which is enclosed, prepared in connection with an address that I recently delivered in Chicago, I said that "it is not the responsibility of the Federal Reserve System at a time like this to underwrite the public debt at fixed prices, but rather to do everything in its power to curb further expansion of the money supply and further depreciation in the purchasing power of the dollar....A greater degree of independence on the part of the Federal Reserve System is long overdue."

I would not attribute past inaction on the part of the Federal Reserve System to fear of nationalization, but rather to honest differences of opinion as to the most appropriate course of action in a situation where debt management and anti-inflationary monetary policies are apparently in conflict. I am hopeful, however, that the future will find the Federal Reserve System and the Administration cooperating more closely in an effort to combat inflation by means of monetary and credit policies.

Very truly yours,

M. S. Eccles.