

The following is a message from Mr. Sproul - dictated by Miss Regan to Miss Egbert over the telephone on 11/21/47 at 5:15 p.m. - - -

1. I have thought over what you said yesterday about raising Reserve Requirements in Central Reserve Cities.
2. We have a very tender government security market.
3. An increase in reserve requirements of Central Reserve City Banks at this time would not accomplish anything but a shift of government securities to us at grave risk of serious further unsettlement of the market.
4. To do anything now merely to demonstrate that we have used all of our present powers would be folly.
5. I think we should keep on with our present considered program which can be effective so long as the Treasury has surplus funds to retire securities we hold, and that we should use our power to raise reserve requirements later when we can get the benefit of its psychological effect without present serious danger of forcing our hand on Open Market operations.
6. I think your testimony before Senate Committee could best take same general line based on my belief that the extent to which the current expansion of bank credit is the cause of inflation has been exaggerated, and my belief that the present measures of combating the further expansion of bank credit have been unduly minimized.
7. If we are going to restrict bank credit sufficiently to cut down current demand by reducing current disposable incomes we are going to have to restrict production and cause some unemployment. In the present state of this country and the world I doubt whether this is desirable even though we must run the risk of greater unsettlement later on.