Harry W. Harrison
123 South Broad Street
Philadelphia 9, Pa.

PHONE: PENNYPACKER 5-1293

November 25, 1947

Honorable Marriner S. Eccles,
c/o Federal Reserve System,
20th Street & Constitution, N. W.
Washington, D. C.

Dear Mr. Eccles:

You will hardly remember your letter to me of March 7, 1946 in acknowledgment of mine in regard to the fictitiously low interest rate and effect on our economy. Now we are all disturbed about inflation, and the President recommends ten cures, none of which cover the basic disease.

When a doctor sees a patient with high temperature, he has to find out first what causes the temperature, for it is only at the source that you can cure the symptoms. Sure, it would be swell to fill the gap between production and demand, but the basic cause is the amount of money in circulation, and this must be cut down before the patient's fever responds.

We have had a fictitiously low interest rate during the war to facilitate Government financing, but with a balanced budget, it would seem that there would be no necessity for further financing, and while a rise in interest rate would depress long term Governments, mostly held by Institutions, this would be offset in large part, or wholly, by a better return on money at interest, so that the loss would be offset in a few years, and no loss if held to maturity.

Short term Government financing would cost more, but the difference would be worth while insurance against further inflation tendency, and danger of a set-back to business is nil as compared with the danger inherent in the continuation of present interest rate policy.

The Government tries to save money on interest rates by the low rate policy, but this automatically puts up the price of everything, - wheat, for example, and of which the Government is a large buyer, and I guess they lose money on this item alone. Anything that is abnormal cannot be considered healthy, and the interest rate is certainly abnormal and the cause of the unhealthy symptoms, and you know that France recently raised her rate to 4% because they knew it had been low too long, and we have been low for twelve years, and will pay for it if continued much longer.

There is no danger of a financial recession as a result of a rise in the interest rate, although it might be a bit of a jolt momentarily, and it was the same policy of low money rates that was the basis of the stock market inflation of 1928-29, and the results of that we know.

Respectfully,

Harry W. Harrison

December 3, 1947.

Mr. Harry W. Harrison,
123 South Broad Street,
Philadelphia 9, Pennsylvania.

Dear Mr. Harrison:

In response to your letter of November 25 with regard to interest rates, I am venturing to enclose a copy of a statement I presented last week before the Joint Committee on the Economic Report inasmuch as it expresses my own views in this connection.

Let me say that I appreciate having your views and your courtesy in writing to me.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

ET:b

Harry W. Harrison
123 South Broad Street
Philadelphia 9, Pa.

PHONE: PENNYPACKER 5-1293

January 13, 1948

Mr. M. S. Eccles, Chairman,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Eccles:

Your kindly letter of December 3rd with copy of your statement on "THE CURRENT INFLATION PROBLEM - CAUSES AND CONTROLS", is appreciated, but when you say in the third paragraph "There is no easy, simple, or single remedy" it seems to me you're wrong, - for the discount rate is the single and simple answer to prevention and roll back if properly applied.

It hasn't been properly applied for many years for various reasons, and now the Board seems to be afraid to properly apply it for fear of a recession, and the thing goes on, - for if a person and/or a member bank can buy money at 1 1/4% and sell it at from 1 3/4% to 3%, do you think he will stop because he is asked to do so?

Everything costs everybody more, and the Government is the worst sufferer, yet practically nothing is done to prevent the continuation of the inflationary spiral, and all the power to stop it is in your hands. Of course, it's the "consequences" in an election year, but the longer the cure is delayed, the greater will be the harm done, and 1929 is a good example.

You must pardon me, Sir, for writing you as above, but why O why must we encourage borrowing when it should be discouraged by the discount rate?

Respectfully and sincerely,

Au
Ec Report
of Pres.

January 15, 1948.

Mr. Harry W. Harrison,
123 South Broad Street,
Philadelphia 9, Pennsylvania.

Dear Mr. Harrison:

Your letter of January 13 puzzles me because I do not see how you could have read my discussion very carefully and come to the conclusion that the discount rate can be an effective instrument of credit control under present day conditions. I thought I had made it clear that so long as the banks automatically obtain reserves through gold inflow or on their own initiative by selling Government securities, they do not need to borrow from Federal Reserve Banks and thus the discount rate is more or less of an academic matter. If Congress were to authorize the special reserve proposal which I described in my statement the discount rate would, however, be more effective.

I do not gather from your letter that you suggest abandonment of support of the Government bond market, but in case that is in your mind I might call your attention to the Economic Report of the President which was sent to Congress yesterday and its references on pages 48 and 85 to this aspect of the problem.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b