BENJAMIN F. HAAS

175 Fifth Avenue

New York 10, N. Y.

December 2, 1947

Mr. Marriner S. Eccles,
Chairman of the Board
Federal Reserve Bank
Washington, D. C.

Dear Mr. Eccles:

On September 18, 1946 I wrote a letter to you suggesting curbing the inflation, which is worse now than it was then, by retiring the short term paper in the commercial banks and substituting long term bonds to savings banks, institutions and the public. This would immediately take a lot of the manufactured money out of the market.

As mentioned before, it is better to have 3 1/4% long term bonds lodged in the hands of the public than to let the conditions that now prevail go on.

You proposed cutting the bank reserves down in order to curtail the money in circulation. This has been tried in Mexico by the Central Bank where they reduced reserves 50%, but this had no effect in curbing the inflation.

We all know that the amount of short term bonds held by the commercial banks is the main cause of the inflation, which is growing worse.

Trust you do not think I am presuming too much in suggesting the above but we are entering a dangerous period, as you know, therefore this letter.

Would appreciate it, if it is not too much trouble, your giving me your opinion in regard to the short term bonds.

Thanking you for any trouble you may take in the matter.

Very truly yours,

Benj F Haas

BFH/wg

December 17, 1947.

Mr. Benjamin F. Haas,
175 Fifth Avenue,
New York 10, New York.

Dear Mr. Haas:

This is to acknowledge your letter of December 2 with further reference to the inflationary problem.

I am glad to have your suggestions and I think that my first statement to the Joint Committee on the Economic Report so completely covers the subject from my standpoint at least that a reading of it would cover the matters you specifically mention and, accordingly, I enclose a copy in case you have not seen the full text.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

ET:b

December 11, 1947

Mr. Thurston:

I have been unable to locate Mr. Haas' letter of September 18, 1946, in which he apparently described his proposal in more detail.

Unless Mr. Haas is a friend of the Chairman, I certainly would avoid a detailed discussion of Mr. Haas' plan, leading to a series of letters.

We might point out that the Treasury controls the retirement of debt and the issue of new offerings. Actually, the Treasury has been following a program of retirement of bankheld debt for almost two years to the extent funds were available. Also, savings institutions acquired almost 1 billion of new 2 1/2 per cent Series A-1965 bonds offered by the Treasury in October. However, Treasury bonds have since declined fairly rapidly in price, after an earlier decline in the prices of corporate bonds.

Under present conditions, both the Federal Reserve and the Treasury feel it is essential to maintain the established 2 1/2 per cent rate on long-term marketable Government securities, in order to maintain the public's confidence in Government credit and to avoid unnecessary increase in the interest cost to the Government. This objective, however, does restrict the use of the Federal Reserve System's statutory powers to restrain monetary expansion.

The Chairman's statement of the problem and his recommendation for its solution are well presented in his statement before the Joint Committee on the Economic Report, November 25, pages 4-7, and I suggest enclosing a copy with the reply to Mr. Haas.

T. L. S.

T. L. Smith