



FEDERAL BANK EXAMINER

# TREASURY DEPARTMENT

OFFICE OF  
COMPTROLLER OF THE CURRENCY



Post Office Box 1193  
Austin, Texas

January 30, 1948

PERSONAL

Mr. Marriner S. Eccles  
C/o Board of Governors  
Federal Reserve System  
Washington 25, D. C.

Dear Mr. Eccles:

This refers to your letter of December 16, 1947, referring to my letter of November 29, 1947, with respect to the proposal which you submitted to the Congressional committees.

Only a comparatively few bankers really understand that approximately \$25 billion of the deposits of the banks (and Federal Reserve notes in circulation) are the proceeds of the Federal debt owned by the Federal Reserve Banks — borrowed money, in a sense, the same as if the banks had borrowed from the System and purchased the securities.

If the officers of each individual bank would regard, say, 10% to 20% of their deposits as borrowed money, they would be more favorable to your ideas and proposal and make loans and investments accordingly.

If some restraint, as effective as your proposal, be not made into law within a reasonable time, bank-credit inflation, next to printing-press money, is most certain to continue with disastrous effects in the end, because self-discipline or voluntary action will not do the job. The desire for profit will be the reason that most bankers will continue to make loans that are inflationary.

Of course, certain commercial and production lending must be continued, but, to the extent that average loans rise, regardless of the kind, there is some inflation from them, unless the inflation be offset by really increased production.

Let us hope that lending will level off in a proper manner and not go on (as in the 1920's) and all banks stop lending at the same time (as during 1929-33) and all start calling loans at the same time when prices start down (as in 1929) after we have a surplus of goods and services (under consumption), which is most certain to come because high, and higher prices will ultimately drive the mass buying power into the hands of so few people that they cannot consume (buy) our enlarged production. Boom! Bust!

January 30, 1948

I had no thought of moving to the banks \$15 to \$18 billion of the Federal debt now held by the System. You are correct in that such a program "could only be accomplished at the risk of catastrophic effects upon the long-term bond market."

Those of us who favored more taxes during the war, applying more of excessive war profits on the war's cost, did not have our ideas made into law, and now we have to deal with the almost uncontrollable effects of \$200 billion of back-log of buying power plus the very high current national income, all bidding up for goods and services, a presently existing fact that some of us predicted five years ago would come true if we failed to take excessive profits out of war by more taxes in some form.

Let us also hope that we do not have to devalue further (in later years) our dollar, as France is now doing with her money, but I fear that we will some day. That day may come after inflationary prices drive the backlog of buying power into ownership of too few people and current income will be inadequate to consume our production, which will mean a surplus or under consumption (depression).

Under such a condition, the national income will drop so low that the Treasury again will have to resort to deficit financing, and, if so, then we may be certain the "next come back" will be by a very much cheaper dollar, and "pump priming" then will make our deficit financing (which was necessary and unavoidable) in the 1930's look like "fly specks" comparatively.

While I enjoy your letters more than I can express in words, I must not bother you with a lot of correspondence, but I shall appreciate your acknowledging this letter that I may know you received it.

This is confidential and is to encourage you in helping to save the economy of our country, because it is under chaotic and depression conditions that the bad ideas spread.

Very sincerely yours

  
J. W. Hawkins

February 3, 1948.

Dear Mr. Hawkins:

Thank you very much for your personal letter of January 30 and the expression of your views regarding the current fiscal and monetary situation. I shall continue to do all that lies in my ability to carry out the program which I have advocated.

Sincerely yours,

Mr. J. W. Hawkins,  
Post Office Box 1193,  
Austin, Texas.

CN:am