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April 30, 1948

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

Dear Mr. Eccles:

Your letter of January 15th has not been previously acknowledged as I have been away a good deal, but your surmise that I could not "..have read my discussion very carefully.." is correct, for I tried it, and it's 'way over my head.

My understanding of the purpose of the Federal Reserve System when formed was to substitute an elastic currency, backed by a gold reserve of 40%, with a discount rate somewhat above the market rate, to act as a check on commercial paper re-discounted. A lot of changes have been made in the original Act, - all apparently with the object of permitting increase in the circulating medium or Federal Reserve Notes.

The easy money policy of the Administration may have been necessary to enable war financing at low rates of interest, but it certainly isn't necessary any longer if we intend to prevent further inflation, for the more money in circulation the less the buying power, and it makes me laugh to see the Government supporting its 2 1/2s to keep them above par for the sake of face, which means putting more money in circulation by these very purchases in the open market, and thereby adding to what they so desperately hope to check.

When I was a kid bond salesman in 1906, every Thursday at 11 o'clock was an important date, for at that time the Bank of England discount rate was announced, and a change of 1/8 of 1% either way put the bond market up or off. That influence was changed by the first World War, when the dollar became supreme, so to speak, but if the Bank of England discount rate meant so much to world trade when sterling was the medium, don't see why our discount rate could not influence world trade where the dollar is the medium, and just as effectively, if properly handled, - meaning the law of supply and demand, as was the intent of the Federal Reserve Act. You can't monkey with economic laws, or can't monkey with them very long, before they retaliate or boomerang, and while the Administration seems to be fearful of a recession, which they try to prevent through their easy money program, it only means postponement, or a retreat, from facing conditions, and the retreat is developing into a rout, with the resultant greater cataclysm because of the postponement, - if cataclysms can be greater.

Sincerely yours,

Harry W. Harrison