Form F. R. ... (a)

TO ____________________

FROM ____________________

REMARKS:

June 8, 1948:

Mr. Eccles decided not to send this letter to Mr. Fleming -- he requested that it be held in the files for future reference.

GOVERNOR ECCLES' OFFICE

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

June 7, 1948.

Mr. Robert V. Fleming, President,
Riggs National Bank,
Washington, D. C.

Dear Bob:

Two points in your recent speech to the North Carolina Bankers Association, as reported in the American Banker, are in my opinion, misleading.

First, in arguing against proposals to give the Federal Reserve System more authority to restrain inflationary expansion of bank credit and in seeking to minimize the danger you quote me as having estimated a gold inflow this year of $3 billion. You stated that gold inflow is at the rate of one billion "or one-third of the amount originally predicted." What I actually said, in presenting the Reserve Board's statement before the Joint Committee on the Economic Report last November was this: "Over the next year, the gold inflow is estimated at from $2 to $3 billion."

It would have been fairer, had you not exaggerated what was and could only be a rough estimate, made last November when the most dependable evidence then available indicated that the inflow would be larger than has proved to be the case chiefly because European aid and some betterment of conditions abroad reduced the need to send gold over here in order to obtain dollars. Current estimates, however, are still considerably higher than your figure of one billion. In any case, the factor of gold inflow is only a subordinate source of bank reserves. The banking system, irrespective of gold inflow, continues to have virtually unlimited and uncontrolled access to reserves on which an ever-expanding dangerously inflationary growth of bank credit could be built.

Voluntary restraint is now the only real barrier left. Surely everyone hopes that voluntary restraint on the part of lenders will prove adequate. If it doesn't, monetary authorities, who have a primary responsibility for curbing over-expansion of bank credit, will continue to be powerless to stem the tide unless additional powers are granted by Congress. I believe in having the fire extinguisher on hand before--not after--the house is in flames.

Secondly--and this is of much greater importance--in pursuing your argument against adequate precautionary measures, you echo the fallacious idea that more and more bank credit will be needed to finance defense preparations and possibly war. The question is one of labor and materials, not of more and more credit. The problem is one of diverting from civilian to military use labor and materials, now being employed at close to maximum levels and with shortages in many cases. Providing more credit will not produce more labor, more materials or more goods, whether for civilian or for military uses. Credit now used for civilian production will have to be used instead for defense production--there is no reason whatever to keep adding to the money supply which is already more than ample to finance full production regardless of whether it is for civilian or military use. Ever-expanding credit when the economy is at practically full production means ever greater inflationary peril.

Let us by all means make the most of voluntary restraints--surely nobody likes compulsion. But if voluntary restraint does not turn out to be an adequate safeguard--and it can scarcely be any safeguard at all if your ideas about expanding credit were to prevail generally among bankers--then the public should know where the responsibility should be placed for failure to arm sufficiently and in time in case there should be further inflationary developments.

Sincerely yours,

M. S. Eccles.

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American Banker, "'Drastic Mopping Up' of Bank Reserves Opposed by Fleming: May Be Needed to Step Up Defense or Prepare for War, Says Washington Banker," May 19, 1948.