

Committee For Constitutional Government

Incorporated Under the Laws of the District of Columbia

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DR. WILLFORD I. KING
CHAIRMAN

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TREASURER

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

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ADDRESS ALL MAIL
205 EAST 42ND STREET
NEW YORK 17, N. Y.
TELEPHONE MURRAY HILL 4-1102

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Dear Mr. Eccles:

It was very kind of you to send me a copy of your Statement before the Subcommittee on Monetary, Credit and Fiscal Policies of the Joint Committee on the Economic Report, and also your Supplementary Letter to Senator Douglas of December 1, 1949. It seems to me that you have presented, therein, a very scholarly treatment of an important question. Your arguments are very convincing and show the result of your wide experience and logical reasoning.

The conclusion which I arrive at after reading your Testimony is that the fiscal policy of the Federal Government should be entirely divorced from monetary control in other words, the needs of the Treasury ought not to be reflected in monetary policy. In my opinion, it would, with modern developments in money raising, be entirely feasible to forbid the Treasury, at any time - either in war or peace - to turn to the banks for aid in financing. It should be compelled to rely, primarily, upon withholding taxes and excise taxes. The latter can, at any time, be made to yield revenue promptly and in almost any amount desired. Hence bank financing does not, to me, seem to be necessary.

Why not then forbid the member banks to enlarge their holdings of Government securities either by purchasing securities direct from the Treasury or by accepting such securities as collaterals for loans? Were such restrictions placed upon the member banks, the Treasury would be compelled to pay interest high enough to get money from non-bank sources. With the Treasury out of the picture, it would be feasible for the Federal Reserve System to stabilize the price level.

Again thanking you for your courtesy in sending me this material, I remain

Cordially yours,



Chairman

WIK:mg

January 25, 1950.

Dr. Willford I. King, Chairman,
Committee For Constitutional Government,
205 East 42nd Street,
New York 17, New York.

Dear Dr. King:

I appreciate very much your complimentary reference to my statements before the Douglas Subcommittee on monetary, credit and fiscal policies in your letter of December 27, 1949, which came during my absence in the West. Your conclusion with reference to debt management policy would take much more than a brief letter of reply and it would require quite a discussion to get to its merits. In the meantime, I am sure that you will be giving considerable thought to the report of the Douglas Subcommittee, which I think is the most constructive document in this field that has emanated from a Congressional committee in recent years.

Again thanking you for your letter, I am

Very sincerely yours,

M. S. Eccles.

CM