

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 9, 1951.

To Governor Eccles

Subject: _____

From Mr. Thurston

On page 3 of John Clark's attached statement before the Joint Committee on the Economic Report, he makes it appear that you are just a quantity-of-money theorist. Having made that assertion he points out that in the third quarter of last year we had the "most rapid price advance when there was almost no change in the volume of money". He then points out that the price advance slowed down subsequently when there was a very rapid increase in bank loans and volume of money outstanding. He then quotes our 1939 statement denying that prices can be controlled by changes in the volume and cost of money.

I think the key to his thinking is on page 8: "We should do with respect to credit what we are doing with respect to other sectors of the economy, and that is to apply direct control of the volume of credit." He adds that if we can control prices of 4 million business institutions and fix the wages of 60 million workers it should be easy to deal with the banks.

Finally, he makes the prediction that with the shortages of goods, houses, etc., there will be such a plethora of funds "that it will be absolutely impossible through any rational open market operations to prevent interest rates from going down."



Attachment

*In attaching also the 2 D
digest you mentioned*