

4712 Alton Place, NW,
Washington 16, D. C.

February 18, 1951.

Mr. Mariner S. Eccles,
Shoreham Hotel,
Washington, D. C.

Dear Mr. Eccles,

Knowing of your interest in the problem of controlling inflation, I venture to send you a suggestion.

One of the most important factors back of the inflation since the Korean war began is, of course, the increase in the total money supply, due chiefly to an increase in commercial bank loans of about 8 billion dollars. I understand that the Federal Reserve Board is in favor of a policy of controlling credit by changes in the interest rates on Government obligations.

At a time when price controls, wage controls and rationing of scarce materials are being introduced, why would it not be proper to introduce the direct control of bank credit? By law it could be provided that no bank could increase the total of its loans above the total on a certain date or above a certain percentage of its reserves on a certain date without prior approval by the FRB or of some credit administrator. On account of the limited number of banks, such a law should be relatively easy to administer; and this method of dealing with the situation would not affect the interest on the national debt.

I am only an amateur economist; hence, there may be objections to such a procedure which I do not anticipate. Any remarks you may find time to send me will be appreciated. The problem is certainly one of the greatest importance.

Yours respectfully,



Gordon S. Fulcher.

February 27, 1951.

Mr. Gordon S. Fulcher,
4712 Alton Place, N. W.,
Washington 16, D. C.

Dear Mr. Fulcher:

You are quite right in stating, in your letter of February 18, that the increase in commercial bank loans, and accompanying expansion of the money supply, has been a primary factor behind the post-Korea inflation.

In connection with your suggestion that further loan expansion be prevented through imposition of loan ceilings for each of our 15,000 banks, such a plan has certain rather serious drawbacks which may be summarized briefly, as follows: First, there is a continuous shifting in the credit position of various geographic areas and communities that would somehow have to be recognized in setting and revising loan ceilings for individual banks. In particular, banks located in areas where defense activities have been newly established or reactivated might find an over-all loan ceiling determined by their past, or even current, volume of business loans totally inadequate for the future needs of their community. In addition, banks that have endeavored to restrict their lending activities so as to minimize the inflationary impact of credit expansion would find themselves at a disadvantage with competitors who had taken full advantage of the recent abnormal demands for business credit in expanding their loan portfolio.

There might, in the end, be so many cases of review and adjustment of loan ceilings as to impose an insuperable administrative problem for the authority charged with the imposition of these ceilings. Therefore, despite their ease of definition, establishment and enforcement, and the latitude permitted individual banks in allocating credit among applicants for loans, I do not feel that loan ceilings are as feasible a means of curtailing loan expansion as is an over-all reduction in the volume of lendable funds.

Very truly yours,

S. Eccles.