

November 7, 1951

Personal

Mr. Winthrop W. Aldrich, Chairman,
The Chase National Bank,
18 Pine Street,
New York 15, N. Y.

Dear Winthrop:

I have been thinking about your talk on inflation at Austin, Texas next week, and particularly about your statement that all that is needed is the courage to do the job. Perhaps I am a little sensitive on this point, having had some responsibility for monetary and credit policy in the anti-inflationary struggle. At any rate I thought I would jot down some notes for your consideration.

1. Inflation can arise from a variety of causes even though the end result is too much money chasing too few goods.

2. Inflation can arise from the push of increased costs as well as from the pull of increased demand.

(a) It can hardly be avoided if wages often go up but never come down, and if all of the fruits of increased productivity go to favorably situated workers and stockholders, none to consumers. Although our goal is a high level of employment, there must be the possibility of dismissal for the inefficient worker. Even full employment can't and shouldn't mean security for everyone in his present job, or preferred work in the place where the worker prefers to live.

(b) Inflation will gain strength if we try to keep inefficient management afloat, and in destructive competition with efficient management, by the use of Government or Government guaranteed credit. There must be the possibility of bankruptcy for the inefficient firm, large or small.

3. Inflation can arise from a farm price policy which matches every rise in industrial wages and prices, with increased support for farm prices. That is almost built-in inflation.

4. The principal elements of an anti-inflation program in a country such as the United States are not unknown. They embrace fiscal policy, debt management, credit policy and, in time of war or great defense programs, such direct controls as will channel essential and scarce materials into defense production, and prevent the development or continuance of a wage-price spiral.

All of these things must be working in the same direction and toward the same end if there is to be any chance of success in an economy in which the maintenance of a high level of production and employment is necessary to meet our domestic needs and our international responsibilities.

5. I am not trying to minimize the importance of credit policy nor the responsibilities of the monetary authorities. I believe that credit policy has a big role to play in combatting inflation even though the doses of credit restraint must be homeopathic. And I believe that a central banking system, independent alike from narrow political control (or Treasury domination), and from private pressures is essential. But if you are going to call for courage you must call on a lot of people - the executive branch of the Government from which leadership should come, the Congress which preaches economy and appropriates lavishly, the monetary authorities, and the bankers and institutional investors, the labor unions, the business men who, for example, sponsor escalator clauses in labor contracts, the farmers who demand "parity" prices and a lot of other people.

The problem is not merely a lack of courage on the part of Democrats, or of monetary authorities working alongside a Democratic administration, and I hope and expect that you won't present it as such. You probably had all this in mind but I thought it would do no harm to send you these notes.

Sincerely,

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