

Handwritten signature

February 20, 1980

Professor Hans Sennholz
200 East Pine Street
Grove City, Pennsylvania 16127

Dear Hans:

If the trend on the enclosed graph continues we will see bankruptcies and deflation that would even shock John Exter. Of course, we both know it will soon reverse upward, but for the short-run speculator (your son) this movement is significant.

The discount rate of 13% is still below bank rates so it will continue to encourage reserve expansion. What is particularly interesting, however, is the decline between January 2nd and February 13th occurred in spite of a massive increase during that period in member bank borrowings. I assume this was the motivation for the increase in the discount rate since it was counteracting Volcker's demonitization efforts.

It is obvious to me that Volcker is no longer just talking, -- but acting. However, it took the precious metals scare to get him to act. The enclosed graph shows FRB credit moves during his tenure and the reverse came in the peak of the precious metals prices.

This short-run effort to "save" the money market is going to cost dearly in the coming months. The monetization in subsequent months should be massive, but between now and then they are "buying" another recession.

I'm still bullish on stocks, but as usual, I'm afraid that I'm again premature on my scenario! So what else is new?

Cordially,

Robert G. Anderson

RGA/dr
Encl.

Anderson, Hans

February 25, 1980

Professor Hans Sennholz
200 East Pine Street
Grove City, Pennsylvania 16127

Dear Hans:

I'm returning the "roller-coaster" graph on Federal Reserve Bank Credit, with the latest weekly move. Your nasty comment about my "sounding like a member of the Federal Reserve Board," needs a rebuttal! It was not my intent to show my interpretation of the graph, but instead to show the stock market's interpretation.

I completely agree with you that the shift in Euro-deposits back into our domestic banking system is the significant point, and this shift will generate higher domestic prices this year. Furthermore, this week's increase in FRB credit demonstrates the absurdity of believing that the downward trend was anything but temporary!

However, the speculator profits from market reactions (right or wrong) in the short-run. My only point was to show the factor (from the market's perspective) that influenced the temporary setback in the stock market.. In no way did I mean to imply that this downward trend would continue. We both know better than to believe such nonsense!

There is a growing possibility of wage and price controls being imposed that we cannot ignore. This would certainly affect specific selection of stocks in our scenario.

The potential for opportunity income is greater than ever, -- so good luck.

Cordially,

Robert G. Anderson

RGA/dr
Encl.

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ROBERT G. ANDERSON
Executive Secretary

February 5, 1981

Professor Hans Sennholz
200 East Pine Street
Grove City, Pennsylvania 16127

Dear Hans:

Your January 31st proclamation arrived this morning and you make me proud. Please keep me informed on any response that comes from this masterpiece of principle.

Now I hope you are sitting down as you read these next few lines. Commencing next September a Professor Anderson will be engaged in full-time college teaching. The contract was signed and sealed today. Beverly and I will go out to celebrate the occasion tonight. And so what's new with you folks!

Cheers!

RGA/dr

Sennholz, Hans