August 24, 1937

Mr. Henry S. Dennison
Mr. Lincoln Filene
Mr. Morris E. Leeds

Dear Friends:

The copy of the manuscript sent to Governor Eccles was returned with a memorandum by Dr. Currie, copy of which is attached. A blue print of the table referred to in the memorandum is enclosed with this.

This memorandum does little more than state the obvious facts but the significant statement is in the first sentence in the words, "the various factors operating to bring about the very large increase in the monetary supply did not bring about a corresponding increase in total expenditures, that is, in general business activity." If this means anything, it means that we have learned that the increase of the money supply by government borrowing and spending does not result in a normal stimulation of business under the conditions of the last two or three years. This again, to my mind, leads us to the view that other governmental policies besides that of mere spending must be of a nature to encourage business rather than to discourage it, if the full effect of the policies we are recommending is to be realized. Some of you may be able to put other interpretations on this, but this is the only light I have on the matter at the moment.

Other notes are as follows:

On the foot of page VIII-6 is this note. "Currie does not believe that the volume of credit is a primary criterion of policy. Control of money is the means whereby Federal Reserve can influence interest rates and spending. The criterion (guide) is something else."

In reading Dr. Currie's book, "The Supply and Control of Money in the United States," it was difficult for me to get a clear picture of what his ultimate objective is, although I presume that is clear enough in his own mind. We have an ultimate economic objective in the maintenance and healthy expansion of employment and the production and distribution of goods and the rendering of services. In monetary terms, this would express itself in the maintenance and slow expansion of bank debits under conditions of a reasonably stable price level and for purely business operations as distinguished from undesirable speculative operations. This brings the objective down, so far as the mechanics of the thing is concerned to a maintenance and slow increase of MV, or the rate of spending, with a stable price level. M and V, therefore, come pretty close to being ultimate objectives. Taken separately, they would seem to be criteria for reaching the objectives, with V as a criterion for criticism and influencing of governmental and business policies in general; and M as a criterion for action more directly within the field of the Federal Reserve Boards, but still not to be considered as dissociated from V. I would like the criticisms of Messrs. Galbraith and Wernette on this point of view.

On the last two paragraphs of X-3, I find this note. Where I say that inflation can come about in two ways, the question is raised: "How about increases in velocity with no change in money?" That is, I suppose, theoretically possible. Has it actually happened at any time? Of course, velocity can be a factor along with the volume of money. Has it historically ever been an important factor as compared with volume? This question I would like to pose to our two consultants.

The question is also raised at this point: "Should the term 'inflation' be restricted to changes in the money factor alone?" Perhaps this is the question raised by Dr. Wernette's original definitions of inflation which included what I have called on the preceding page "production expansion." I would still feel that the popular use of the term inflation is so firmly concentrated on the monetary and price factors that it would be unwise to attempt to extend the use of the term to production.

A number of criticisms are summed up in a remark relating to the last two lines of X-7 reading as follows: "The self-destructiveness of booms should be clearly demonstrated." I do not know just what to make of this criticism since booms have been followed by depressions. I can scarcely believe that the depressions were caused by influences outside of and not connected with the booms.

On page X-8, in the second paragraph, occurs this note. "Should not this discussion of relief be placed in an earlier chapter? This chapter is concerned with limiting the danger of inflation, not with adding to it."

Again, in the last paragraph of X-9 this note occurs. "Government experience in the last few years indicates that grants-in-aid are a poor means of financing relief. Why not let work relief alone carry the government's share when unemployment exceeds the quota?" This page, of course, is to be completely revised and much of it put in Mr. Leeds' section.

It seems clear, however, from these criticisms that I did not make at all convincing the argument that there is danger of inflation similar to the danger which arises under war-time conditions when governmental funds and employment, not sufficiently controlled, compete with an active demand for consumer goods and services in various fields where labor or equipment shortages are developing. Perhaps this point needs further thought and development.

Sincerely yours,

Ralph

REF:M R. E. Flanders

Cc to Governor Eccles
Mr. Galbraith
Dr. Wernette