

August 13, 1937.

Mr. Ralph E. Flanders,  
Box 477,  
Springfield, Vermont.

Dear Mr. Flanders:

I am returning herewith your manuscript on "Fiscal Policy and the Business Cycle". It has been carefully reviewed by the economists of our Division of Research and Statistics. You will find various pencil notations in the margins which call attention to a number of minor points. No general discussion seems to be necessary because those who have been over the manuscript regard it on the whole as a sound statement of the position advocated and feel that you are already familiar with such general criticisms as might be made by those who would have some fundamental disagreement. Needless to say, I am most favorably impressed with the work that you have done and are doing, and I appreciate having the opportunity to look over the manuscript in advance.

I am also enclosing a brief memorandum by Dr. Currie with regard to the specific questions raised in your letter of July 17th.

If you come to Washington, I would be glad of the opportunity to see you and discuss with you some of these major problems in which we are both so much interested.

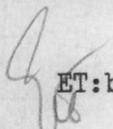
With kind personal regards,

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,  
Chairman.

enclosures

  
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## MEMORANDUM

With regard to the questions raised in Mr. Flanders' letter of July 17, the following comments appear to be in order:

The velocity of circulation reached an extremely low level because 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. What increases in general activity there have been since the depression lows have been met by the increasing money supply. Recently the situation has changed. The sterilization of gold by the Treasury and the recent increases in reserve requirements have tended to reduce greatly the potential amount by which the banks can expand their deposits, while with the curtailment of Government expenditures and increase in receipts, bank purchases of Government securities will probably cease to be an important factor making for deposit expansion. In view of these developments it is probable that further increase in general activity will be reflected in an increase in the velocity of circulation, rather than in an increase in the money supply.

Data on bank debits are available only since 1919. Attached are the latest series available, with a covering memorandum explaining the computations. For similar data previous to that year, consult Carl Snyder's Business Cycles and Business Measurements.

The higher velocity in New York is generally attributed to financial operations. One suggested explanation of the greater stability of the volume of funds there is the action of corporations in pulling in funds normally carried in other accounts when the volume of business handled through those accounts falls off.