

TO

Mr. Currie

FROM

Est.

REMARKS:

Would you care to
 reply to this yourself?
 I wrote Henders in
 your absence to say
 I doubted whether
 you would agree with
 some of the conclusions
 he drew from correspondence
 with us.

September 15, 1937.

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

Dear Mr. Flanders:

Mr. Thurston has passed your recent correspondence with him along to me and I have been much interested in it.

I quite appreciate that you are placing your own interpretation upon my statement that the various factors operating to bring about the very large increase in the money supply did not bring about a corresponding increase in total expenditures. I am sure you will not take it amiss if I make some comments of my own on your interpretation. In your circular letter you stated that "if this means anything, it means that we have learned that government borrowing and spending does not result in a normal stimulation of business under the conditions of the last two or three years". This appears to me to be unwarranted. The fact that income velocity failed to increase and even declined slightly does not mean that government spending was offset by a contraction of private spending. On the contrary, there was an increase in private spending and the total stock of money, including the large amounts newly created, continued to turn over at only a slightly diminished rate, so that total expenditures increased substantially.

I think it is quite possible, as you suggest, that a stimulus to revival through governmental borrowing and spending of old and newly created money entails a low velocity, while the program is in progress, and the supply of money is being added to rapidly. This, however, is not a valid criticism of this means of stimulating activity unless such an excessive supply of money is built up that a return to a previously existing rate of turnover results in an excessive volume of expenditures. This would not appear to be the case with our experience.

Your failure to find a statement of monetary objectives or a discussion of the criteria for monetary policy in my book is attributable to the fact that I was writing a monograph on the conditions of the supply and control of money, and not a general treatise. I think, however, that we are in general agreement in our views as to objectives. I objected

Mr. Ralph E. Flanders

2.

a little to your statement that I regarded the volume of credit as a primary criterion of policy. I would look to the movement of production, employment, prices, and many other factors as criteria or guides for the achievement of our objectives.

The velocity table you referred to is not mine. It was, however, prepared in our Division of Research and Statistics. While we have not as yet released it we have no objection to your using the velocity figures. Since, however, they are subject to further revision I would suggest that unless they are vital to your argument it might be advisable to wait until we release the final estimates.

In conclusion I would like to state that I found myself in substantial agreement with your general discussion and differed only in matters of detail.

Please do not hesitate to call on me if I can be of any assistance in furthering the good work in any way.

Yours sincerely,

Lauchlin Currie
Assistant Director,
Research and Statistics.

LC:em