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COMMITTEES:
MERCHANT MARINE AND FISHERIES
WORLD WAR VETERANS' LEGISLATION

Congress of the United States
House of Representatives
Washington, D. C.

May 1st
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Hon. Marriner S. Eccles, Chairman
Board of Governors of the Federal Reserve System
Washington, D. C.

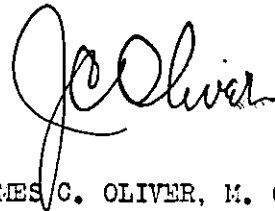
Dear Mr. Eccles:

I am enclosing herewith for your consideration and comment a statement which I presented Monday evening to the Voluntary House Group on Unemployment.

At your convenience I would appreciate an unofficial observation as to the merits and demerits of this brief analysis of our economy and its present problem of unemployment.

Thanking you for your courtesies of the past and your further indulgence in this request, I am

Very truly yours,



JAMES C. OLIVER, M. C.

COPY

PROGRAM FOR MONETARY AND FINANCIAL APPROACH TO UNEMPLOYMENT PROBLEM

PRIMARY OBJECTIVE

To preserve Capitalistic Economy under Democratic principle of Government. (Free economy under traditional American freedom of action).

PRINCIPAL OBSTACLE TO THIS OBJECTIVE

Involuntary unemployment of masses of our people.

PRINCIPAL CAUSE OF UNEMPLOYMENT

Lack of purchasing power in hands of consumers.

THIS NECESSITATES STUDY OF CAUSE OF THIS LACK OF PURCHASING POWER.

As we check the source of purchasing power in the past, we find that extension of credit and use of savings have supplied the deficiency existing between production and consumption. In other words, the creation of debt or the extension of credit, which are two ways of saying the same thing, has underwritten our economy for the various periods of successive business cycles. Thus, the debtors or spenders, although looked at askance by the creditors or the thrifty, have actually made possible such spasmodic employment of our human and natural resources as we have enjoyed during our comparatively brief history as a nation.

During the periods prior to the New Deal, this debt creation has been accomplished through personal and institutional underwriting of private enterprise. During the New Deal regime, the debt or credit expansion has been accomplished for the most part through the public underwriting of Governmental activity. In both cases, however, we have always eventually arrived at the same point, i. e., where further debt creation or credit extension could not or would not be borne or tolerated.

We were at that point in 1929 and we are once again at that same point today; the only difference being that in 1929 private debt had been expanded through private credit inflation to a total which the National income could not support without serious impairment of current purchasing power; while today we find public debt has been expanded through public credit expansion to a total which political psychology will not further tolerate. Therefore, in order to stabilize our National economy and go forward through private enterprise we must find a new monetary vehicle to ride to replace the debt-money system which is the Model T distribution method of a stream-line production age.

During the past three-quarters of a century, credit or debt has played its part as a basis for our money supply -- those dollars which are the connecting link between production and consumption. Consequently, we must now substitute for the debt spark plug of economic activity a dynamic method of underwriting or financing consumption whereby employment of our human and natural resources to reasonable capacity may be achieved. This must be done without expos-

ing our economy to the threat of a runaway inflation (either currency or credit).

My suggestions for a specific rational approach to the possibility of a permanent solution of the problem in which we are vitally interested are:

- (1) Acquisition of Federal Reserve System by the Federal Government.
- (2) Establishment of 100% reserve requirements for demand bank deposits.
- (3) Enactment of a Money policy which will distribute to consumers through a National pension economy sufficient dollars on a monthly basis to supply job opportunities in private enterprise to all who are willing and able to work.
- (4) Development of a tax program on a net income basis which will prevent stagnation of profits in possession of individuals and corporations. Perhaps it will be necessary to place a ceiling on personal use income and to adopt in such a tax program a levy which will force distribution of surplus to stock holders and individual owners of partnerships.

May 4, 1940.

My dear Mr. Oliver:

Your letter of May 1 and the enclosed copy of a statement which you presented last Monday evening to the Voluntary House Group on Unemployment were particularly interesting to me because it seems to me you have approached realistically our major domestic problem and the only practical way that I see to meet it.

If I correctly interpret points 3 and 4, they are very close to my own line of reasoning, and the first two points on which I would have strong reservations would seem to me to be relatively unimportant.

I shall not undertake in the space of a letter to discuss so large a subject as the one you have summarized in this statement, but I wanted you to know that I am sympathetic with your analysis and with your basic remedies, and that I appreciate your thoughtfulness in sending me the statement as well as in requesting my off-the-record general observations.

I think the development of an adequate old-age pension system and a tax program based on the principle of ability to pay, both being directed at this stage toward increasing consumption and against idleness of men, money, or material, is what we most urgently need if we are, as you say, to preserve our economic system and democratic institutions.

It is especially refreshing to me to know that you are approaching this subject from much the same standpoint as I do and are discussing it with your associates in the House.

Sincerely yours,

M. S. Eccles,
Chairman.

Honorable James C. Oliver,
House of Representatives,
Washington, D. C.

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