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C.W. YOUNG & CO.
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INVESTMENT MANAGERS
CONSULTATION... PLANNING... SUPERVISION
CHRYSLER BUILDING, NEW YORK

February 28, 1935

V
The Honorable Marriner S. Eccles, Governor
Federal Reserve Board
Washington, D. C.

Dear Sir:

Your recent address before the Harvard Business School Club was of such interest to me that I took the liberty of summarizing its substance for the benefit of certain of the other members of our Economics and Research staff. The summary, a copy of which is enclosed, has been received with great interest and I have had several requests from members of our staff to have it released to a limited number of our clients who are active thinkers on the subject discussed. Your permission to circulate the memorandum in this way will be greatly appreciated.

In your concluding remarks at the Harvard Club, I recall your urgent suggestion that the critics among your hearers give to the study of this subject some of their time and thought, though it be only a fraction of that given to it by you.

Having your plea in mind, I cannot help but feel that you may be interested in having in your files a copy of an address by the writer delivered on this subject in April 1934. In the hope that you may take time to scan the enclosure, I have for your convenience blue-pencilled certain passages expressing viewpoints almost identical with your own.

I shall welcome any corrections of misstatements in the enclosed summary of your address and shall await your permission to distribute it.

Very truly yours,

Edward Ingalls
Edward Ingalls

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REPORT ON ADDRESS BY
THE HONORABLE MARRINER S. ECCLES
NEWLY APPOINTED GOVERNOR OF THE FEDERAL RESERVE BOARD
GIVEN AT THE HARVARD CLUB
FEBRUARY 19, 1935

This address was delivered at the Harvard Club on February 19, 1935, and all newspaper reporters were excluded. Consequently, this memorandum is for the personal information of the staff only, and should not be sent around to clients or friends.

Mr. Eccles was remarkably outspoken in this meeting, and went into detail as to his own personal philosophies on money, banking, and Government policies aimed at inducing recovery and preventing the recurrence of booms and collapses as have been witnessed in the past.

He advocates:

- A. The full use of the Government's taxing power to lessen the inequality of incomes between individuals and groups of individuals.
- B. The full use of the powers of the Federal Reserve Administration to control and adjust the supply of money in order to facilitate a better distribution of goods.
- C. Conscious action on the part of the Government to counteract big changes in the rate of expenditures on the part of individuals as a mass, by changing its own rate of expenditures.

He claims that capitalists have nothing to lose by permitting these compensatory controls to operate, and expressed his fears that if capitalism did not make conscious efforts to control booms and collapses by permitting such compensatory schemes to function, it is not unlikely that our system will have to suffer more direct and socialistic controls being imposed in the more distant future.

In respect to the use of the taxing power to bring about a better equalization of incomes, he pointed out that all purchasing power finds its way either into spending or into idleness, or "hoarding;" and that the purchasing power which is spent is spent either for producers' goods, or consumers' goods-and-services. He referred to the reports of the Brookings Institution on the distribution of national wealth and incomes, and stated that 1/10 of 1 per cent of our population received an income as large as the total income received by the lowest 42 per cent of our population. He ventured the opinion that such a condition was unacceptable to the 42 per cent, and in the long run unsafe for the 1/10 of 1 per cent of the population, and he ventured the suggestion that inasmuch as income received by the very wealthy cannot all find its way into spending or in other words, is more likely to be "hoarded" a salutary effect would be noticed if this income were taxed away in part and diverted to the lower income classes who normally spend practically all of their income.

In other words, the larger the mass of wealth or income concentrated in the hands of single individuals or corporations, the greater the danger of violent contraction in the velocity of turnover of that wealth and income. THIS WOULD APPEAR TO INDICATE THAT HE IS IN FULL SYMPATHY WITH PROGRAMS AIMED AT TAXING BIGNESS. Reference was made to the evils of having so much of our individual wealth lodged in tax-exempt bonds!

On the subject of Federal Reserve operations to control the supply of money, he gave the impression that he would favor the Central Bank supporting the Government to the limit in its efforts to prime the pump of business. The familiar figures as to the great potential expansion of Federal Reserve and member bank credit and currency were detailed by Professor Ebersole in the earlier address, and were not minimized by Mr. Eccles.

As to the Government consciously planning to vary its rate of expenditures on public works to moderate the effect of changes in mass individual spending, he very strongly advocated that such spending be done via the public works and construction method rather than direct relief and doles. HE PARTICULARLY WARNS AGAINST AND OPPOSES GOVERNMENT SPENDING IN LINES WHICH WOULD OR MIGHT CAUSE PRIVATE SPENDING TO CONTRACT. He admitted that several Government measures had had this effect and had, therefore, retarded the recovery process.

He sharply differentiates between deficit expenditures which result

- A. In a transfer of indebtedness, and
- B. Expenditures which really prime the pump, - that is, create spendable income in the hands of persons who have an active demand for goods.

In this connection he stated that the deficit amounts spent by the Government in 1931, '32, and '33 had been largely for relief of debtors and protection of creditors, while expenditures tending to create income or prime the pump amounted to only 3 per cent of the national income in 1932, 4 per cent in 1933, and perhaps a little more than 4 per cent in 1934. He inferred that this priming operation to date had been merely a "trickle", and did not constitute a fair test of the proposition, and indicated that operations along these lines might well be materially expanded over the next several years, or at least until the recovery proceeds sufficiently to insure that the expansion of private incomes will be continued by the further expansion of industrial activity made possible by enlarged private investing of present idle balances.

HE DEFINES INFLATION AS THE STATE OF AFFAIRS WHICH EXISTS WHEN INCOMES ARE BEING CREATED FASTER THAN GOODS CAN BE PRODUCED TO FILL THE DEMAND. According to this philosophy and definition, inflation, therefore, is to be feared only after we have had RECOVERY. He further observed that extreme inflation need not be feared inasmuch as the Federal Reserve Board and the Administration have sufficient powers to prevent inflation. These powers include the conducting of open-market-operations, adjusting reserve requirements of member banks, raising or lowering rediscount rates, and the ability to transfer redundant Treasury deposits from the member banks to the Federal Reserve Banks at the will of the Treasury Department. Fundamental also is the power of the Administration to tax, and thus prevent incomes rising too fast.

Why should he?

Appalled!

During his discussion he reviewed the arguments of the "laissez faire" school of economists and bankers, including their demands for Stabilization of the Currency and Balancing the Budget as prerequisites to recovery. Mr. Eccles indicated his disfavor of applying these doctrines rigidly at all times, favoring a flexible policy when needed. He pointed out that honest attempts to balance the budget in 1931 and 1932 did not prevent deflation, and that the gold standard as it operated in the past had not prevented collapses and booms such as witnessed in 1929 and earlier. He claims that without international agreements immediate stabilization could result in a further loss of our trade to other countries which might and probably would devalue further. This would result in some reduction in the mass incomes of individual United States citizens. He says that people who believe in the doctrine of the permanently balanced budget are gambling on the hope that the new "confidence" created by such conditions would induce individuals to expand their spending due to their new certainty that "prices would not rise." To his mind this is not consistent with former precedents that spending and new investment are increased when business men can look forward to future profits, to be gained in part by rising prices. ||| *advertis*

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N. B.: This whole philosophy was discussed and forecast as a probable Administration thesis in a meeting of the C. W. Young & Co. organization held in our offices on April 9, 1934.