

THE WHITE HOUSE  
WASHINGTON

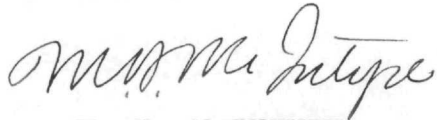
November 27, 1937

MEMORANDUM FOR HONORABLE MARRINER S. ECCLES;

Some days ago, I think we sent over to you a letter from Senator Robert Owen to the President.

A memorandum from the President asks me to talk with you about it.

I'll not have the chance before leaving so if you have any memorandum for me on it, you might send it over and let Rudolph send it along to Miami.



M. H. McINTYRE  
Secretary to the President

December 1, 1937.

Mr. Rudolph Forster,  
Executive Clerk,  
The White House.

Dear Mr. Forster:

I received Mr. McIntyre's memorandum of November 27th stating:

"Some days ago, I think we sent over to you a letter from Senator Robert Owen to the President.

"A memorandum from the President asks me to talk with you about it.

"I'll not have the chance before leaving so if you have any memorandum for me on it, you might send it over and let Rudolph send it along to Miami."

I wish you would advise Mr. McIntyre that I did not receive the referred to letter from Senator Robert Owen to the President and I cannot, therefore, furnish him with a memorandum on it. If you will send a copy of this letter to me, or have Senator Owen send me one, I will be glad to go over it and give Mr. McIntyre the memorandum he desires.

Sincerely yours,

M. S. Eccles,  
Chairman.

MSE:VE:b

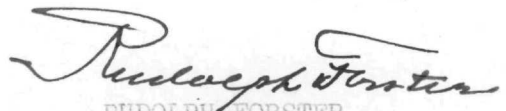
THE WHITE HOUSE  
WASHINGTON

December 3, 1937

My dear Mr. Chairman:

Referring to your letter of December first, I am sending herewith the original letter from Senator Owen, referred to in Mr. McIntyre's memorandum of November twenty-seventh.

Very sincerely yours,



RUDOLPH FORSTER  
Executive Clerk

Honorable Marriner S. Eccles,  
Chairman,  
Board of Governors of the  
Federal Reserve System,  
Washington, D. C.

Enclosure

*Mr Currie*  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date December 3, 1937.

To Dr. Goldenweiser

Subject: \_\_\_\_\_

From Mr. Thurston

The Chairman has requested me to transmit this to you for preparation of a memorandum answering the attached letter to the President from Senator Owen.

*[Signature]*  
\_\_\_\_\_

Attachment.

December 7, 1937.

Dear Mac:

Enclosed is a memorandum prepared by Dr. Currie of our staff with regard to Senator Owen's letter which you referred to me for comment.

This briefly points out the basic fallacy in proposing to remedy the present situation by merely creating more money.

Sincerely yours,

M. S. Eccles,  
Chairman.

Honorable Marvin H. McIntyre,  
The White House.

enclosure

ET:b

*Sen. Owen's letter and  
memoranda returned to  
Mr. McIntyre with  
above letter.*

COMMENTS ON SENATOR OWEN'S LETTER TO THE PRESIDENT

The principal theme of this letter is that there is an inadequate supply of money, and it is argued that our difficulties may be solved by expanding demand deposits until the "normal pre-depression price level" is restored.

1. Statistical data.

Senator Owen states that "in 1936 the people of the United States employed and had only one-half as much check money as in 1929". In order to overcome the obvious objection that actual data show the volume of demand deposits on June 30, 1936 to have been \$26.2 billion as contrasted with \$23.5 billion on June 30, 1929, and that the volume of currency in the hands of the public is some \$2 billion greater than in 1929, it is argued that to the 1929 figure of demand deposits should be added "\$10 billion of time deposits converted into bank demand deposits as a credit contraction took place", and from the 1936 figure should be subtracted at least \$6 billion "hoarded money in the form of demand bank deposits held by great corporations as reserves".

There is no factual basis for either of these arguments. The decline in time deposits in the depression was mainly attributable to bank closings and currency withdrawals. The decline in time deposits in central reserve and reserve city member banks from 1929 to 1933 was only \$1 $\frac{3}{4}$  billion.

At the present time corporations undoubtedly hold a substantial portion of demand deposits. This has, however, always been the case.

The size of a holding tells us nothing about the rate of turnover. Large holdings are consistent with either a high or a low rate of turnover. It is, of course, true that the rate of turnover of deposits is lower than in the Twenties. It is estimated that the total volume of deposits subject to check, plus currency in circulation, was turned over to income recipients on an average 2.87 times in 1928, and 2.12 times in 1937. These figures are obtained simply by dividing the national income by total demand deposits plus currency.

## 2. The point at issue.

The real point at issue is not an increase in money or in velocity but in the national income itself. Senator Owen apparently believes that all that is necessary is the creation of more money, which in some unexplained way will immediately acquire a certain velocity and swell the national income. In present conditions, however, it is likely that any new money created simply through open-market operations would not be spent and would not operate to increase the national income in any way.

To induce residential construction, plant and equipment and other types of expenditures, it is necessary to provide more of an incentive than adding to the money supply. Conditions must be made favorable from a profit point of view if such expenditures are to occur. The housing program and increased Government expenditures are designed to provide such conditions by operating directly to increase the demand for goods. In the present circumstances monetary policy should be directed toward facilitating such measures, rather than be relied upon as in itself sufficient to turn the tide.