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CONGRESS OF THE UNITED STATES
House of Representatives
Washington, D.C.

July 28, 1942

Honorable Marriner S. Eccles, Chairman,
Federal Reserve Board,
Washington, D. C.

My dear Governor:

Last fall, when I was preparing a speech for delivery before the Virginia Manufacturers Association, you were good enough to offer some helpful suggestions on the subject of inflation, etc. Next month I plan to address the Virginia Bankers Association in Charlottesville, and am again asking your kind assistance in the preparation of that speech. I would particularly welcome your suggestions on the best ways of preventing currency inflation. And I would appreciate your comment on the ways bankers can promote the war effort. If your reply reaches me by August 20th, it will be in ample time for my purposes.

Sincerely yours,

(Signed) A. Willis Robertson

A. Willis Robertson

August 17, 1942

Honorable A. Willis Robertson,
House of Representatives,
Washington, D. C.

Dear Mr. Robertson:

This is in reply to your letter of July 28, 1942, in which you request suggestions on the best ways of preventing "currency inflation" and on the ways bankers can promote the war effort.

The problem immediately before us in regard to inflation is to prevent the increasing flow of income arising out of the war effort from bidding up prices of the diminishing supply of civilian goods. Personal incomes, both profits and payrolls, have greatly increased, reflecting war expenditures by the Government, and the manufacture of goods available for civilian purchases has seriously declined as the result of the diversion of plant, labor and materials to war purposes. Currency in and of itself is not the principal part of the inflation problem since the bulk of payments are made by checks drawn upon bank deposits. In fact, the withdrawal of currency from banks reduces bank reserves and thus curtails the potential expansion of bank credit. The effect is deflationary rather than inflationary. You may be interested in reading the article on "Recent Changes in the Demand for Currency" which was published in the April 1942 issue of the Federal Reserve Bulletin, a copy of which is enclosed.

In his message to Congress on April 27, the President outlined a seven-point national program for preventing an undue rise in the cost of living. My own position on these matters has been stated on several occasions. Rather than burden you with a repetition of the references forwarded to you on October 21, 1941, when you were preparing your address to the Virginia Manufacturers' Association, of Roanoke, I shall mention only a few later sources.

The statement before the Banking and Currency Committee of the House of Representatives on September 29, 1941, with reference to the Price Control Bill, gives my general views on the efficacy of functional and selective controls of inflation, respectively, and their interrelationship. The Talk before America's Town Meeting of the Air on February 12, 1942, is concerned with the means of financing the war without inflation. The address before the District of Columbia Bankers Association on May 25 relates the present effort to prevent inflation to the eventual attainment of post-war security and prosperity. The radio address of June 24 explains how the discouragement of credit and instalment buying and the encouragement of the liquidation of existing debts (the seventh point in the President's program) aid in preventing inflation. I am glad to be able to enclose copies of these statements and to mark parts that may be of special interest to you.

August 17, 1942

Bankers can promote the war effort in so many ways that it is difficult to generalize. In their respective communities they can strengthen the whole war program by supporting it themselves and encouraging others to do so. The success of the seventh point in the President's program to prevent runaway prices, stated above, depends a great deal on the active cooperation of bankers; likewise, the fifth point (encouragement of citizens to purchase war Bonds with their earnings instead of using those earnings to buy non-essentials). By investing in the short-term securities which the United States Treasury has offered in increasing amounts during recent months, bankers may earn a reasonable return on temporarily idle funds and at the same time facilitate the financing of the war. Participation by bankers in the financing of war industries, either independently or through guaranteed loans under Regulation V of the Board of Governors of the Federal Reserve System, will make it possible for local industries to participate more extensively in war production. The Federal Reserve Banks have been authorized to act as agents for the War and Navy Departments and the Maritime Commission and will be glad to furnish advice and information on war financing to all bankers in their respective districts.

I hope some of the enclosed material will be of service to you in preparing your address and I should appreciate receiving a copy of it. Thank you very much for the opportunity to offer suggestions.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures

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CONGRESS OF THE UNITED STATES
House of Representatives
Washington, D.C.

August 18, 1942

Hon. M. S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Governor Eccles:

Your letter of the 17th is greatly appreciated.
The material which you have furnished will be very helpful
to me in preparing the speech to be delivered to the Virginia
Bankers Association.

With best wishes, I am

Cordially yours,

(Signed) A. Willis Robertson

A. Willis Robertson.