

United States Senate

SELECT COMMITTEE ON INVESTIGATION OF
EXECUTIVE AGENCIES OF THE GOVERNMENT

January 14, 1939.b

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

My dear Mr. Eccles:

I have the honor to reply to your public letter to me signed as chairman of the Federal Reserve System. The letter was received the day after Christmas. The holiday season and the opening of Congress have prevented an earlier reply.

Your fiscal program, in substance, has since been adopted by the President of the United States.

You say the budget of the Federal Government cannot be balanced except by "restoration of national income". And this you propose to accomplish by still greater pump-priming. The President says to reduce expenditures now "we would invite disaster," and sets a national income of \$80 billions as an assurance for budget balancing. We are told that when an \$80 billion national income is secured, the budget will automatically balance from increased yields from taxation, and that until an \$80 billion income is gained, the Federal Government will continue to borrow and spend and increase the public debt. If not realized under the proposal we must assume the borrowing and spending continue so long as the solvency of the government lasts.

What you advocate is a direct repudiation of the Democratic platforms of 1932 and 1936, the economy and budget balancing messages, and pledges of the President of the United States, the Secretary of the Treasury, and other official spokesmen, including yourself.

In 1936, the President, in his message to Congress, said:

We should plan to have a definitely balanced budget in the third year of the recovery and from that time on to ask a continuing reduction of the national debt.

Only a year ago the Secretary of the Treasury spoke of the support of the administration of a balanced budget.

You have made the new spending issue clear. I thank you for your frankness. Before answering the strictures you make on my Boston speech and the rhetorical questions you propound, I want to clear away first the complaint in the very first sentence of your letter. I quote your exact words:

In the course of your speech attacking the government which you delivered in Boston on December 10 . . .

If I attacked the government in that speech, I did not know it. I certainly did not intend to attack the government which I have spent much of my life defending. I did attack certain theories which you propounded and certain policies which you espouse and support. If, indeed, an attack upon your views is an attack upon our government, then and then only, am I guilty.

But to tell you the truth, I did not know -- I did not even suspect that you and the government were one and the same. I know in Italy an attack upon Mussolini is an attack upon the government; that in Russia an attack upon Stalin is an attack upon the government; that in Germany an attack upon Hitler is an attack upon the government.

But I had not quite come to appreciate your attitude of mind and your point of view. I did not quite know upon what meat Caesar had been dining.

In the early days of this republic the Federalist party enacted the alien and sedition laws, making it a crime for any person to "write, print, utter or publish" certain forbidden writings against "the government of the United States or either House of Congress or the President of the United States".

Those laws wrecked the Federalist party and brought Jefferson and the Democratic party into power.

I am duly sensible of the scorn with which you ridicule my devotion to "those time old virtues of thrift, frugality, self-reliance and industry". I do not agree with those who regard thrift as a vice or as a mistake, or who regard spending for spending's sake as the highest virtue and wisdom. I still agree with the philosophy of the late Will Rogers, repeated often, but not often enough, that "we ought not to spend money that we haven't got for things we don't need". I do not agree, as you may, with William Trufant Foster when he said:

In the future we must prevent the oversaving and underspending which are the chief causes of the depression.

That is also the doctrine and dogma of that erratic English economist, Dr. J. M. Keynes, who, though a prophet without honor in his own country, seems to have sold his seductive schemes of spending and borrowing to those vested with power and responsibility in this country. England rejected his fantastic fallacies of spending, borrowing and lending, adopted a rigid policy of retrenchment and economy, reduced her per capita tax and balanced her budget, and revived prosperity.

As to the recovery of England, according to your own statement in New York on December 1, her national income in 1937 was about "118 per cent of the 1929 level." Whereas, according to your statement, our national income during the last three years, "has been averaging only about 75 per cent of the 1929 national income". You then said if the United States enjoyed the same relative prosperity as England, our income would now be \$88 billions instead of \$60 billions. I am careful to quote your own words as to the relative prosperity of England and America. In fact, I make the comparison only because you have made it.

England met her depression in a way very different from America. England did not attempt to borrow and spend herself out of this depression. She did not pile deficit upon deficit. She did not swell her relief rolls. She did not harry and frighten business. She did not revive the depression. She revived prosperity.

From 1932 to 1938, the total income of England exceeded her expenditures. England is \$400,000,000 to the good. The United States, in the same period, is \$20,400,000,000 in the hole.

I ask you why, by your own statement, recovery in England from the world depression has so far outstripped recovery in the United States. It cannot be due to superior population. We outnumber the English three to one. It cannot be due to superior resources. Our resources exceed theirs. I am not willing to believe that England is superior to America.

Stripped to the bone, the main issues between you and me relate to taxes and debts. You think the government can "purchase" prosperity on borrowed money. I think that genuine prosperity must come from the productive industry of the citizens of our republic.

I realize that in entering the arena with you I come as a mere layman while you are a noted financial expert. You are not only the present Chairman of the Federal Reserve System, but you are a former president of a great company controlling 26 different banks. You are initiated in all the mysteries of high finance. You ask me:

Are you aware of studies made by a distinguished group of scholars under the auspices of the Twentieth Century Fund indicating that the total of all domestic debts, both public and private, is no greater today than in 1929?

It just happens that I am, and with due deference, I will tell you what they said, and what you omitted to quote:

The Committee is convinced that our economic system would be far more healthy if debt financing were used less frequently and that measures should be taken to reduce its extent. (page 254)

Let me tell you what else the Twentieth Century Fund said, likewise not mentioned in your letter:

That in the long run no government can continue year after year to incur substantial deficits and to increase its debts steadily if it wishes to maintain its credit.

After invoking the Twentieth Century Fund as a financial authority, you propose to continue to do what this authority declares will impair the credit of the government.

I know, too, that this same Twentieth Century Fund, in its reports, declared that in 1937 the total government debts of all governments in the United States "are the largest that any nation has ever had", and the Twentieth Century Fund Committee said further, "that the budget should be balanced in 1938, and in 1939 begin substantial debt reduction".

In a series of rhetorical questions you commit yourself to the proposition that it is the total amount of private and public debt that counts. You say that the total amount of public and private indebtedness is no greater today than it was in 1929, and that private debts have decreased as far and as fast as public debts have increased, and that, therefore, there is no occasion for alarm.

I challenge this theory and this philosophy. It is utterly fallacious.

I know how uncertain are all estimates of aggregate indebtedness. But let us accept as true the estimate that public and private indebtedness today is the same as it was in 1929 -- about \$250,000,000,000.

As you say, our public and private indebtedness is as large today as it was in 1929, and yet, as you know, our national income is only \$60 billions, whereas for 1929 it was \$80 billions. The income out of which these debts must be paid has shrunken \$20 billions. The amount to be paid remains the same. The means of paying has shriveled 25 per cent. Our burden is the same. Our strength is much less. Is that immaterial?

If our private and public indebtedness had shrunk 20 per cent as has our national income shrunk, then the proportion of our burden to our strength would be the same today as it was in 1929. But this may be a matter of no concern to one who, like you, believes that a national debt is a national blessing and that recovery is born of debts and deficits.

I cannot conceal my astonishment at one of your questions. You ask, "Do not the same general economic considerations apply to both private and public debt?"

I did not suppose that anyone familiar with the science and principles of public finance could give his sanction to such a self evident absurdity. About the only things they have in common is that they are both promises to pay. These promises originate from different motives and are directed to different objectives. The ends are different and the ways and means

of payment are different. As respects a private debt, the person who makes the debt expects, and is expected, to pay the debt. In respect to a public debt, the government makes the promise, and the people, or the taxpayers, perform the promise.

A private debtor enters into the promise voluntarily, upon his own motion, and for his own interest. The government creates the public debt, and those who must pay are compelled to pay whether they would have entered into that promise or not. The obligations of a private debt rest upon those who made it and may, or may not, be secured. A public debt is a universal mortgage. It is a first lien on every acre of land, on every house and home, on every piece of property, on every service that is rendered, on every transaction that is made.

My views upon this subject happen to be sustained by the National Industrial Conference Board, and I quote the following from their recent bulletin on Private and Public Debt in the United States:

Can public debt be substituted for private debt in our economic system? Those who maintain that there is nothing alarming in the steady rise in the national debt insist that there is essentially no difference between the two . . .

The primary function of private long-term debt is to help finance the creation of durable goods. Private long-term debt thus bears a direct relationship to income-producing private wealth, whereas public debt does not.

One of the basic causes of the crash of 1929 still remains perilous in possibilities for another depression. Debt has been one of the main causes of every major depression we have had. How can debts continue to be increased above the 1929 level and avoid evils even more disastrous? The following table shows our relative debts and taxes:

	<u>1929</u>	<u>1937</u>	<u>1938</u>
Per capita income	\$ 668	\$ 540	\$ 500
Per capita taxes	80	95	103
Taxes as a percentage of national income	12%	17.6%	20.6%

Since the depression began our national debt has run up from \$16 billions to \$40 billions. The President says that on July 1, 1940, the debt will be \$44,458,000,000.

When we entered the World War our national debt was about one billion dollars and the interest charge was only about \$20 millions a year. The annual interest charge now is over a billion -- more than the total indebtedness prior to the war. It is \$300 millions more than the total expenses of government in 1916.

The President's budget shows that in 1940 accumulated spending in excess of income will reach \$28 billions. During the depression we added more to the public debt that we spent defeating our enemies in the World War.

Suppose we should become involved in another world war costing as much as the last. Suppose we should blunder into another depression costing as much as this one. Suppose that, by chance or mischance, we should suffer the double calamity of being obliged to finance another war and another depression. We would start, after the budget just presented is adopted, with \$45 billions of federal debt, and not one billion, as we did in 1917.

Our public debt -- national, state and local -- now averages \$430 for every man, woman and child in the country. The present generation has placed a mortgage on all the people and on the property of all the people in order to prime the pump for the present generation. We are handing down to our children a staggering indebtedness which they did not incur but which they will be required to pay (not heirlooms but chains).

As a layman, I am not willing to lose the principle underlying this discussion in a wilderness of statistics. I know that in support of your theory about debts to promote national prosperity, you have the support of the very highest official authority in this country. I, therefore, invoke what I regard as equally high authority in support of my contention that you are wrong when you contend that a public debt is a public blessing.

Thomas Jefferson, who founded the party which for the moment enjoys the benefit of your affiliation, said:

I am not for increasing, by every device the public debt, on the principle of its being a public blessing.

I place economy among the first and most important of republican virtues, and public debt as the greatest of the dangers to be feared.

To preserve our independence, we must not let our rules load us with perpetual debt. We must make our selection between economy and liberty, or profusion and servitude.

There does not exist an engine so corruptive of the government and so demoralizing of the nation as a public debt.

As the doctrine is that a public debt is a public blessing, so they think a perpetual one is a perpetual blessing, and therefore wish to make it so large that we can never pay it off.

We are ruined if we do not overrule the principles that 'the more we owe, the more prosperous we shall be; that a public debt furnishes the means of enterprise; that if ours should be once paid off, we should incur another by any means however extravagant.'"

I shall now reinforce the precepts of Jefferson with the example of Jackson. Jackson, during his administration, extinguished the public debt, the first and last time that was ever done in the history of the Republic.

It was my pleasure to attend the Jackson Day banquet here in Washington a few nights ago. I witnessed the seance and heard the short wave conversation between Andrew Jackson and the present President. I thought I overheard Old Hickory say that in 1836 he paid off the public debt in toto.

I know that in a letter dated July 4, 1824, Jackson said:

If a national debt is considered a national blessing, then we, like Great Britain, can get on by borrowing. But as I believe it a national curse, my vow shall be to pay the national debt, to prevent a moneyed aristocracy from growing up around our administration that must bend it to its views, and ultimately destroy the liberty of our country.

If I may say so without disrespect, I think Andrew Jackson as great a Democrat as you or any other living personage.

You ask: "Is it of no significance that the interest on the public debt amounts to only a little more than 1 per cent of our national income?"

You failed to include the interest on local and state debts. The total interest of all public debts is actually nearly $2\frac{1}{2}$ per cent, and not 1 per cent, of the national income of 1938. But that is not the point. Interest rates are now low because business activity is low. A debt such as the federal debt will last very many years. Interest rates will fluctuate as the demand for money rises or falls. Quite a proportion of the federal debt is in short-term securities and must soon be refinanced.

Now with reference to taxes you ask: "Have you not overlooked the fact that as national income increases, tax revenues increase, even without a rise in tax rates?" I have not overlooked that fact, but I do not derive as much comfort from that source as you do.

You state with confidence that "national income increased from less than \$40 billions in 1932 to approximately \$70 billions in 1937. Tax receipts of the federal government increased from \$2,080,000,000 for the fiscal year ending June 30, 1933 to \$6,242,000,000 for the fiscal year ending June 30, 1938. The country paid about \$4 billions more in taxes but it had \$30 billions more of income a year out of which to make these payments."

Certainly you did not intend to say that this increase in tax income came without an increase in tax rates or the imposition of new taxes.

Your 1938 revenue figures include the Social Security tax not existing in 1932, the undivided profits tax, increase in income tax rates and changes in the definition of net income, increase in inheritance taxes, new taxes on consumption, such as the one cent per gallon federal tax on gasoline, and numerous other new "concealed" taxes, all having been added since 1932.

You must know that an entirely new tax structure exists now as compared to 1932. Let us carry your theory out on your own premise.

In 1932 the federal taxes, by your own figures, were 5 per cent of the national income. In 1937, with an annual income of \$70 billions, the federal taxation was over 9 per cent of the income. The increased taxes required 15 per cent of the increased income. But make your comparison with 1932 on the 1938 national income which fell off a cool \$10 billions in one year.

This will show that for the additional \$20 billion income we now have for 1938 as compared to 1932, the increase in federal taxes equals $17\frac{1}{2}$ per cent of the increase in income. I let these statistics speak for themselves.

You also ask: "Would you have the public believe that the country was better off in 1932 with lower taxes and a lower public debt than it was in 1937 with higher taxes and a higher public debt." That is not the point.

As a layman I think the public might well believe that they would be better off with the low taxes and the lower debts of 1932 and the higher national income of 1937. According to your own statement, the people of England now enjoy that very situation with its undoubtful blessings.

Another word about taxes. Mr. Roosevelt was right when he said that taxes are paid in the "sweat of every man who labors."

High taxes mean high cost of living. High taxes retard business expansion and prevent the employment of the unemployed.

In some emergency high taxes may for a brief period be necessary and advisable, but high taxes as a permanent diet is another thing. There is a definite limit to the percentage of the nation's productivity that can be taken for taxes.

An interesting comparison of combined taxation and unemployment follows:

Year	National, state and local tax percentage of the national income	Unemployed
1929	12	1,864,000
1930	16	4,049,000
1931	18	7,300,000
1932	21	11,400,000
1935	17	10,652,000
1938	20	10,900,000

You do not have to go very far back in history to disprove your theory of recovery through deficit spending. The depression that preceded the 1929 crash was in 1921 and 1922. The national income fell from \$73 billions in 1920 to \$53 billions in 1921. Severe recession. The federal expenditures were reduced from \$5 billions in 1921 to \$3 billions in 1922 with a corresponding reduction in taxation. The national income then rose to \$60 billions in 1922, an increase of \$7 billions over the level of 1921.

In 1923 another reduction was made in spending and in taxation. The income rose to \$69 billions. A gain of \$9 billions in one year on a federal budget of nearly one-half as compared to 1921 when the recession began. So here is a definite experience of a severe business recession met and overcome, not by spending more but by spending less, not by borrowing more but by paying debts off, not by taxing more but by taxing less.

To the suggestion that this public debt need not be paid, I respond that America has always paid her debts. She did so after the early wars of our Republic. She did so after the Civil War. After the World War nearly one-half of the debt created was paid. We are an honest people. If the government does not pay in an orderly way its debt, the citizen will not pay his debt and financial chaos will follow.

The payment of \$500 millions each year, as applied to the direct debt only will take 56 continuous years to pay it down to where it was when the deficit spending began. I may not be able to read the danger signals with as much accuracy as an expert but as I see it you display a danger signal. You say since 1937 national income has temporarily contracted due "to a combination of factors one of which was a too sharp and too rapid reduction amounting to more than \$3 billion in the Government's net contribution to community buying power in 1937 as compared to 1936".

This statement accentuates the fundamental danger inherent in our policy. Have you used iron lungs upon the country so long that they cannot now be dispensed with? You say the reduced government deficit was a major cause of the recession. Your statement needs analysis. I quote from the federal budget for the fiscal year ending June 30, 1937:

Expenditures	\$8,442,000,000
Revenue	<u>5,292,000,000</u>
Deficit	3,148,000,000

I quote from the federal budget for the fiscal year ending June 30, 1938:

Expenditures	\$7,626,000,000
Revenue	<u>6,242,000,000</u>
Deficit	1,384,000,000

So it is seen that the net deficit was about \$2 billion less, not \$3 billion less than the previous year.

The federal expenditures were \$700 million less, but let me remind you that this difference is accounted for entirely by the payment of part of the soldiers bonus in the budget year of 1937. The soldiers bonus was vetoed by the President and could have been no part of "timed" deficit spending. Furthermore, if you take the total of all expenditures, national, state and local, the increase of 1937 over 1936 was \$1 billion. So your contention that the national income was reduced \$10 billion from 1937 to 1938 with reduced spending as the main cause is not sustained.

On March 27, 1936, you made a speech at the University of Cincinnati. You then said:

I agree with most business men and bankers that a budgetary deficit if continued will create inflation....

The reason that a continued budgetary deficit would create inflation beyond the control of the Federal Reserve System is that such a deficit financed by banks would continue to pile up bank deposits...

We must look to a period of balanced budgets... We must look in the next year or two to a balanced budget.... Personally I would like to see it by 1938.

Again on March 13, 1937 you said "only by this process (a balanced budget) can monetary inflation be prevented".

I do not quote you to embarrass you. In these days it is fashionable for public men to change their minds and I freely concede to you this right. But what concerns me is that as a banking expert and head of the Federal Reserve System you in 1936 and again in 1937 made the definite and unqualified statement that: continuous deficits will create inflation beyond the control of the Federal Reserve System; that only a balanced budget will prevent an uncontrolled monetary inflation.

In your letter to me you say your concern is to "maintain the solvency of the government and to avoid the evils of inflation". What has changed your belief in the principle you asserted in 1936 and 1937 that "continued deficits" would produce monetary inflation?

Is not your present policy to continue deficits for an indefinite period or until an \$80 billion income is reached a perilous one? May it not end in the evils of currency inflation which may have dire consequences? Can you guarantee or even prophesy the year in which we shall have an income of \$80 billion? To me it is a peculiar method you advocate to maintain the government's solvency and to avoid inflation.

You apparently believe the way to maintain the solvency of the government is to continue indefinitely to increase its debt. You believe the way to avoid the evils of inflation is to embrace inflation as you yourself describe it - that "continuous deficit financing through bank credit (this is what is being done) is inflationary".

You ask me, "do you consider, as your speech implies, that government debt is evil, whereas private debt is not?" I never said that all government debt was evil, or that all private debt was good. Debt in itself is not evil; it depends upon the purpose for which the debt is contracted, the ability to pay, and whether the debt is essential. A productive debt, I have known in private business, to be useful and wise; an oppressive debt I have seen force good men into bankruptcy and destroy the happiness of whole families.

I say unhesitatingly that a public debt created to continue to gamble with the discredited theory of pump priming is an evil.

You ask "Do you think it was natural forces that produced the recovery after 1933?" The national income in 1932 was \$40 billions, in 1938, \$60 billions, a gain of \$20 billions after six years of spending. Our Federal taxes in 1938 are three and one-half billions more than in 1932, and this must be deducted from the gain in national income. During this period the national debt has increased more than \$21 billions.

Public spending has become firmly entrenched in every nook and corner of America. Government extravagance has become habitual. The nation faces the danger of greater and larger spending. Haven't we paid pretty heavily for a \$20 billion increase in the national income which you say did not come from "natural forces" and is therefore artificial.

I believe that for every dollar the government borrows and spends in pump-priming, private enterprise is deterred from spending two.

Let me remind you that from March 1933 until July 1933, when our fiscal actions were sound, the greatest increase of business activity occurred in any same period in the history of our nation. Many men were put back to work. The Federal Reserve Board index of industrial production stood at 60 in March, 1933, 100 in July 1933.

You indulge a good deal of fine rhetoric in respect to my statement that many "able bodied citizens rely upon the Government for support and have ceased to exert their efforts for self-help to obtain private employment". My statement is based on experience, observation and the testimony of those who are in a position to know.

Here are the figures of those receiving public assistance:

1933	-	16,800,000
1934	-	18,200,000
1935	-	17,200,000
1936	-	16,600,000
1937	-	15,600,000
1938	-	18,300,000

Let me suggest that your Church (The Mormon Church, the Latter Day Saints), has had some experience in connection with relief work and relief workers. The Mormon Church with its fine example of self-reliance might shed some light upon the effect which our relief system has had upon the morale of certain classes of those receiving relief. It could tell you how hard a thing it is to help certain people without making them helpless. You are one of the very few who are satisfied with the present administration of relief, as indicated by your letter. Every one knows that there are worthy citizens on relief. The real injury to the worthy on relief does not come from me in favoring a purge of the unworthy, but from those who have abused the privilege of relief for their own personal, selfish or political advantage.

I could give you an illustration in my own state of Virginia of a county where four Federal relief administrators were appointed and solicited the citizens to go on relief. The county authorities requested the dismissal of the Federal employees, assuming all obligations for relief in that county. This particular Virginia county never went on relief. The county cost of providing all necessary relief to those in need was less than the annual salaries of the four Federal supervisors.

A word as to your plan of "properly directed and properly timed Federal expenditures" to stimulate private enterprise. You appear to think that public appropriations can be turned off and on like a spigot; that when the national income increases you turn the spigot off and when it declines you turn it on. Nothing could be farther from the practical facts. These vast sums are spent by gigantic government bureaus reaching into every nook and corner and manned by politicians of influence. Solomon in all his wisdom could never devise a plan of public spending "directed and timed to stimulate private enterprise" and raise this expenditure up and down in accordance with the national income and at the same time satisfy the forty-eight states and four thousand communities. So this "planned economy for timed expenditures" is thoroughly impractical of operation even if otherwise desirable.

Can society lift itself by its bootstraps through continuous spending in excess of income? In our government of checks and balances the check on excessive spending comes from the tax conscious citizen who can see where his tax money goes and criticize its use. If deficit spending is practiced indefinitely the taxpayer is not directly conscious of the burdens to be imposed later upon him.

Concerning the five point program I suggested at Boston as an aid to gradual restoration of the country to fiscal sanity, you say:

I am convinced that your program is not only a defeatist one, a program of retrogression and not of progression but it would jeopardize the salvation of democracy.

I confess this program, as limited as it is, is intended to be a gradual approach to a balanced budget. In that respect it means "retrogression" and not "progression" --- in debts and taxes. But, will it jeopardize the salvation of democracy?

The program is:

First: Reorganize the federal government for simplification, retrenchment and economy.

Second: Cancel existing authority of thirty federal borrowing corporations and agencies to borrow an additional eight billions of dollars without further legislation and require these corporations and agencies to function through the budget, allowing Congress to approve or reject their future expenditures.

Third: Scrutinize the new activities of government now responsible for the expenditure of 30 per cent of the total appropriation, exclusive of relief; eliminate the dispensable activities and reduce others to a minimum cost.

Fourth: Have a thoroughly honest purge of relief rolls to stop all expenditures in excess of provision for those in need, through requirement of the localities to bear a portion of the burden and direct local interest to needed reforms.

Fifth: Conduct the government within the ability of the people to pay and regard reasonable taxation as one of the best assurances for business prosperity.

What is "sudden or drastic" about it?

Mr. Roosevelt came into power on a much more drastic economy program. Heretofore when criticism has been made, much has been said of a lack of a constructive plan. Here is a definite program with the ultimate objective of restoring the country to sound principles of finance.

I want to concentrate now on what I conceive to be the essential point of your doctrine. For you the important thing is not the mere magnitude of the Government expenditure, but the excess of the Government's spending over its income; in other words, the magnitude of the deficit. You explained yourself very clearly when you testified in December 1937 before the House Banking and Currency Committee when you said: (page 120)

The way to get money into operation is for the government to spend more than they collect. If you spend more than you collect you create that budgetary deficit that puts money into operation.

It is the deficit that does the work of bringing about business recovery. Moreover, it is important, from the standpoint of your theory, that the Government borrowing to meet the deficit should not be borrowing from individuals but that it should be from banks, so that new bank credit will be created to increase what you call "purchasing power". What you want is a deficit, financed by expanding bank credit.

I call to your attention two ways of getting such a deficit. One is the method, apparently contemplated by you and those in the Government who think as you do, of the maintenance and even the expansion of the existing fantastically high Government expenditures. But another way, equally effective, would be a curtailment of Government expenditures, accompanied by an equal curtailment of taxes. A complete tax holiday would create even a greater deficit.

With respect to your general doctrine that a deficit will bring about business recovery, I call your attention to the fact that Mr. Hoover did very well in this matter. He had a deficit of \$3,153,000,000 in 1932, preceded by a deficit of nearly a billion in 1931.

In your testimony before the Senate Committee on Finance in February of 1933 (hearings, pages 712-713 and 720) you proposed a total of \$3,000,000,000 as gifts to the States and as expenditures on self-liquidating public works as a sufficient contribution from the Government to purchasing power in that great emergency. We have expended that amount over and over again and you insist that continued and still more lavish expenditures are still indispensable to recovery, and their withdrawal will mean disaster.

I want to get business prosperity restored, not by financial manipulations on the part of the Government, but by restoring confidence on the part of the business community in the fairness of the government, by eliminating needless frictions and restraints and by freeing the enterprise of a great people, who want jobs, not charity; work, not taxes.

We had pretty good business in the United States, with occasional interruptions for 150 years before the era of deficits began in 1931. Nine years of deficits, very largely financed by bank credit, should shake even your confidence in the value of deficits as financial magic in making business prosperity.

I emphatically repudiate your doctrine that debt for its own sake is good, that deficits for their own sake are good, and that an expansion of bank credit for the purpose of financing deficits is good.

I believe that the general flow of purchasing power must come out of production itself, production in one industry giving rise to the demand for goods produced by other industries; that, with the proper proportion among the different kinds of industrial activity, the producers themselves will clear the markets of the goods that other producers create, and that all the financial manipulations of government deficit spending designed to create additional purchasing power merely mess up and distort the picture.

You profess to favor the capitalistic system, but you seem to forget that the profit motive is to capitalism what the law of gravitation is to the physical universe. Private enterprise is more concerned about the "hope" of profits than the profits of the hour. This must be so, because a factory is not built for this year but for many years. It is the confidence in this "hope" of profits that is impaired by the expectation of the evils of the inevitable day of settlement.

In conclusion, may I be permitted a personal word. Since I came to the Senate in 1933 I have consistently fought what I regarded as waste and extravagance in government expenditures. At no time have I opposed what I believed to be appropriations sufficient and reasonable to provide for the needy and to finance the proper and necessary functions of government.

I mention this, only because of the inference often suggested and inferred that if one opposes waste and extravagance he is willing for citizens of America to starve and freeze and suffer, and the country to stagnate because of the lack of adequate government appropriations.

As you correctly say in your letter, these issues are too vast to be adequately discussed by correspondence.

I attribute to you a full measure of sincerity in the opinions expressed in your letter under reply.

I have earnestly endeavored to answer the inquiries you have propounded to me. I will later discuss these issues more fully on the floor of the Senate.

Very truly yours,

Harry J. Burton