

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date. January 3, 1939.

To Chairman EcclesSubject: Comments on the Press reactionFrom Lauchlin Currieto the Reply to Byrd*LLC*

The main points made by various newspapers in criticism of the reply to Senator Byrd, together with some suggested lines of reply, are as follows:

1. Government spending discourages the expansion of private investment. This point recurs again and again and really constitutes the main basis of the attack on the spending thesis. In reply the factual weakness of the argument could be brought out showing that investment in mining and manufacturing recovered its late Twenties level by 1937. Utilities, railroad and construction - both residential and commercial - were the only important fields in which the revival of investment was slow. Special factors account for this in each case: the existence of excess capacity up to 1937 in utilities, the financial condition of the railroads and the lack of population pressure on building in combination with advancing costs, and excess capacity in commercial buildings. The weakness of the argument as respects business motivation could also be brought out. It can be shown that business spokesmen, themselves, are increasingly coming to admit that Government spending by increasing orders encourages rather than discourages private investment. The alleged fear of the debt could also be discussed in this connection.

2. One editorial says that the real question involved is: "To what extent and for how long is the Government to substitute for private enterprise as the medium for the exchange of goods and services?" This idea also occurs in a number of the other editorials. It could be shown that it is completely misleading. The question is not one of the Government's substituting for private business, but only of Government spending supplementing private spending. In this connection the actual ways in which money has been spent should be cited to demonstrate that very little indeed has been in any way competitive with private industry.

3. Another notion frequently encountered is that the whole Government spending program is wasteful, while private spending is productive. In this connection the excessive expenditures of the Twenties on commercial buildings and foreign loans could be compared with the very useful spending of the Government on housing, health conservation, etc.

4. The New York Times makes three historical points:

(a) The recovery from the depression of 1921 was achieved without help of Government spending. In reply it is only necessary to show what a tremendous difference in the investment situation existed between the two periods, and in particular, what a tremendous pent-up housing and automobile demand there was ready to break through in 1921.

(b) The 1933 recovery came before spending started. This, of course, was due to a wave of forward buying and inventory accumulation in anticipation of higher prices and large spending later in the year.

(c) The 1938 recovery came two months after spending started. This is the weakest of all the Times' points. It could scarcely be expected that the upswing would have been sooner, especially with the relatively high level of inventories that still prevailed.

5. The English recovery of 1932-37 came with very small increase in debt. A number of papers made this point and asked if Chairman Eccles were aware of what had happened in England. (For instance, the New York Herald Tribune). The answer involves an analysis of the English recovery showing:

(a) The effect of the favorable terms of trade in releasing home income for other purposes, especially housing.

(b) The large accumulated housing demand due to the low level of building in the Twenties.

(c) The marked reduction in interest rates effected by government action, and the favorable level of building costs.

(d) The upsurge of the electrical and automobile industries which had not developed in England in the Twenties as they had in this country.

(e) The effect of the high income and estate taxes in England in reducing savings and thus helping to stabilize the national income.

6. The Journal of Commerce says, "Mr. Eccles' views reflect a loss of faith in private enterprise and the ability of the nation to recover without extraordinary government spending." It is not a matter of faith but of economic conditions. One can have plenty of faith in

private enterprise but be convinced on the basis of factual studies that in the immediate future at any rate private investment needs to be supplemented by public investment.

7. The Washington Post dismisses the whole "idea that a society can indefinitely lift itself by its bootstraps through a continuous spending in excess of revenue" as "too fantastic to merit detailed analysis." This is an extreme expression of ignorance of the fundamental nature of a capitalistic economic system. Capitalism has, of course, always required for its existence that someone spend more than his income. Otherwise any investment would be impossible and savings would go to waste.