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WASHINGTON, D. C.

January 27, 1939

Mr. Marriner S. Eccles, Chairman
Board of Governors
Federal Reserve Board
Washington, D. C.

Dear Mr. Eccles:

Heartiest thanks for your kind letter of January 25th. I greatly appreciate your generous expression of approval of my letter in the Washington Post. Believing as I do in the necessity of an expansion of productive public investment, I felt impelled to defend your policy against shortsighted editorial and senatorial criticisms. It is discouraging to encounter so much obscurantism and prejudice in the endeavor~~s~~ to promote rational planning of our economic life.

Let me congratulate you upon your very able and temperate broadcast in the National Radio Forum last Monday night.

With best wishes and much appreciation,

Cordially yours,

George B. Galloway

George B. Galloway.

GBG/m

LETTER TO EDITOR, PRINTED IN THE WASHINGTON POST
OF JANUARY 22, 1939.

Sir:

Criticisms of the Eccles compensatory fiscal policy by Senator Byrd, Arthur Ballantine, newspaper editors and others reflect an unfortunate lack of public understanding of the role of public expenditures in promoting greater economic stability.

The theoretical basis of the policy is now fairly well known. Net Federal contributions to purchasing power, i.e., the excess of activity-creating or income-yielding expenditures over income-decreasing receipts or taxes which decrease buying power, are designed to stimulate consumption during bad times and thus absorb excess capacity, start capital investment and restore employment. Reliable statistical analyses show a remarkably close parallelism since 1933 between the Federal expenditures, income payments other than interest and dividends, consumption expenditures, production and industrial capital investment. Thus there is ample statistical proof of the validity of the purchasing power theory and of the efficacy of the pump-priming program when it is properly timed.

Nevertheless, critics object to this policy on the ground that it is inimical to "confidence" and hence to private spending. But this objection has little validity. Stagnation in the private capital markets is fundamentally due, not to lack of confidence, but to institutional changes and new motivations affecting the investment of capital funds: the disappearance of the individual investor and the growth of the trustee, the decline of competition in established enterprises, lack of opportunities for rapid capital appreciation, the changing attitude toward savings of the growing proportion of salaried workers in a commercial economy and the failure to amortize investments.

Despite the fears of the orthodox, who mistakenly apply to public finance the concepts and principles of individual thrift and private financial practice, the national compensatory fiscal policy espoused by President Roosevelt is a sound one. Any serious reduction in the net Federal contribution to buying power would probably be followed, as it was in 1937, by a recession.

Fear of national bankruptcy from increasing the public debt can be dispelled (1) by separating capital expenditures for public works from current operating expenditures and placing the former in a capital budget as Sweden does; (2) by placing more Governmental functions under the administration of public corporations which have their own balance sheets; (3) by showing that any policy which produces socially useful assets or creates utilities or utilizes human and material resources more fully or yields income is good for the country; (4) by pointing out, as Prof. Alvin Hansen, of Harvard has, that a country with large state enterprises is in a much stronger position to control the rate of investment and thus to achieve greater stability of employment and income; (5) by telling the people that, since the public debt is held internally, we owe the debt to ourselves and the carrying charges are burdenless for the economy as a whole in the sense that the funds raised from taxes to cover these charges are at once returned to the community in interest payments; (6) by showing that economic progress in our system depends upon a steady increase in the total of all debt outstanding.

There is reason to believe that the American economy is facing, not just a cyclical problem, but a period of chronic "secular stagnation." Plentiful savings demand larger capital outlets at a time when profitable opportunities for new private capital investment are declining.

A planned, long-range program of public investment in productive, revenue-creating, wealth-producing enterprises is, I believe, a sound way of promoting permanent relief for the able-bodied unemployed. If such a program is combined with reform of the techniques of social accounting (the capital budget), with use of Government-manufactured interest-free credit for public construction, and with a planned program of reduction of the costs of labor, materials and money designed to achieve a balance in the cost-price-income structure, we can attain fuller employment of the factors of production, create a much larger national income, balance the current Treasury budget, and banish the fears of Federal bankruptcy.

George B. Galloway.

Washington, January 19.

January 25, 1939.

Mr. George B. Galloway,
726 Jackson Place,
Washington, D. C.

Dear Mr. Galloway:

Your letter to the editor, printed in the Washington Post of January 22, 1939, is such an able and understanding summation of the role of fiscal and monetary policy in contributing to more orderly economic progress, that I cannot refrain from writing you this note to express my appreciation of it. Occupying my present position, I am not free to carry on anything in the nature of a political debate, and I can only approach these questions from the standpoint of an erstwhile business man and banker and discuss these questions from a fiscal and monetary viewpoint.

In the midst of so much political distortion, it is especially gratifying to read your clear and forceful analytical statement on a plane of intelligence and comprehension far removed from politics, and, I regret to say, far above the level reflected in a great majority of the editorials which appear in the press on this subject.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b