

*Hold on  
files*

My dear Senator Byrd:

Your open letter addressed to me, which was released for publication in morning newspapers of Monday, January 16, persists in attributing to me views which I do not hold and never have held. Therefore, as in the case of your address in Boston on December 10, 1938, ~~which likewise mis~~<sup>reflected a</sup>~~represented my views,~~ I wish to point out where you are mistaken, although I have no desire to prolong this discussion which was precipitated by your personal attack upon me in your Boston speech.

It should be clearly understood that the infrequent public speeches which I have made since occupying my present position have represented my views and no one else's. In <sup>this</sup> ~~discussing~~<sup>of</sup> fiscal and monetary matters, I do not speak for the Board of Governors or for the Federal Reserve System, ~~to~~. You state that my "fiscal program, in substance" has been adopted by the President of the United States. Gratifying as that would be from my standpoint, I can not lay claim to the honor, nor have I at any time ventured to speak for the Administration, and I am not privileged to do so now.

You state that what I advocate is "a direct repudiation of the Democratic platforms of 1932 and 1936", but I must remind you that I have never taken an active part in politics, ~~I have never sought public office,~~ I had no hand in and <sup>did not and</sup> I could not subscribe to the political platforms of either the Democratic or Republican Party insofar as they proposed to balance the budget by having the government withhold or reduce its contribution to purchasing power at the very time that private enterprise was withholding or reducing its contribution to purchasing power.

I felt long before 1932, and I think events since have proved conclusively, that any such policy could have no other effect than to intensify and prolong deflation, impoverish more and more of our citizens, bankrupt more and more private enterprise, and thus widen, not lessen or close, the gap between what the government spends and what it collects in taxes.

The record since 1929 has clearly demonstrated that only government, the collective agency of all of us, has the strength, the credit, the fiscal and monetary powers, to halt and turn the tide of a great deflation such as engulfed this nation after 1929. Individuals and corporations are in no position to do so, for they are actuated by the profit motive, and properly so; they are compelled in such times to seek liquidity and retrenchment, to diminish or stop production, and hence to create unemployment.

The government, which is not actuated by the profit motive, which can create credit, <sup>and</sup> ~~which~~ has the tax power, is the only unified force capable of providing liquidity, as it does through the banking system-- and the mere readiness to provide it banishes the necessity for it as we saw when the banks were reopened early in 1933. The government, because of its broad powers possessed by no individual, by no corporation, and by no private group, not only can provide the liquidity which private groups are unable to provide for themselves, but the government is also unlike an individual or private group in that it can create purchasing power when private enterprise is retrenching. The government can thus stimulate production when private industry is being forced to curtail production.

In brief, the government of a great democracy can no more justifiably refuse to marshall its tremendous powers to combat a domestic depression than it can fail to mobilize against a foreign invader. In both cases the government's ability to wage a successful battle is limited only by its human and material resources, brains and courage--and by nothing else.

You appear to believe that the government is also limited by its credit, even though it can create credit, just as it can extinguish credit. I do not agree. You appear to fear that the government's credit is soon exhausted. I believe that the greatest danger to democracy would come from failure to use its human and material resources in the production of real wealth, and that so long as they are so used, the ~~supply~~ <sup>supply of man power would</sup> be exhausted long before the government's credit could be.

You seem to fear that the government, notwithstanding its possession of vast powers that are possessed by no individual, must nevertheless behave like an individual, and that, therefore, it should always live within its income and keep its budget balanced. You fear that otherwise it will go bankrupt, as an individual would. Such reasoning ~~as yours~~, logically applied, would prevent us from waging war, unless we could tax enough money out of our citizens on a pay-as-you-go basis to buy munitions and support the army and navy. You are well aware that any such pinch-penny war-time policy would be unthinkable. We unbalanced the budget in the last war by as much as \$13 billions in a single year, and we increased

the national debt by more than \$25 billions in the space of but three years.

I do not recall that financial interests and political leaders, who reflect their views, were in a state of alarm about the budget then. We had our eyes fixed on winning the war. We did not go bankrupt, even though we were wasting human and material resources in war instead of conserving them as we are now. We paid off more than \$9 billions of the war debt during the '20's and could have paid off far more if, in the same period, we had not had three major tax reductions which tended to feed rather than restrain stock market speculation. What concerns me, and has concerned me all along, is winning the war against depression.

I do not think alarmist talk about the government's credit can be justified by the record now any more than it could be then. I am convinced that there is no valid economic argument against using the government's credit to put idle human and material resources to work creating real wealth when private enterprise fails to do so, provided the government does not compete with private industry and that everything possible be done to remove unnecessary obstacles that may be standing in the way of private enterprise.

I need not dwell on that portion of your letter which takes exception to my saying that in your Boston speech you were attacking the "government", instead of saying that you were attacking the "Administration".

I could better understand your indignation and your accompanying allusions to Mussolini, Stalin and Hitler if you yourself did not use the word "government" in precisely the same sense that I used it. Thus, I note that in your Boston address, you said that, "We have at Washington today the most costly, the most wasteful and most bureaucratic form of government this Republic has ever known." I presume that what you were assailing was the "Administration" and not our "form of government".

In the same letter in which you so indignantly object to my using the word "government", instead of the word "Administration", you yourself use the word "government" in exactly the same sense that I used it. However, I shall not, on this account, read you a lecture, as you did for my benefit, on free speech, free press, the Federalist Party and the evils of foreign dictatorships.

Getting back to the real issue, let me say that you are badly misled when you say that I "scorn" the old-time virtues of "thrift, frugality, self-reliance and industry", and impute to me the belief that thrift is a "vice" and "spending for spending's sake" is "the highest virtue and wisdom". I wonder how you could get such a strange notion as to my views unless, before assailing them, you either had not troubled to ascertain what they have been and are now, or else failed completely to understand them, in which latter case, I must share part of the blame for inability to find words with which to make my meaning plainer.

Your references to a Mr. William Trufant Foster's statement to the effect that we must prevent "oversaving and underspending" and to the British economist, Dr. J. M. Keynes, who, you say, "seems to have sold his seductive schemes of spending and borrowing to those vested with power and responsibility in this country", are likewise baffling. You say you do not agree with the former's statement, though you fail to say why you disagree. As to the latter, I can assure you that he has not "sold his seductive schemes" to me because I have never met him or seen him, and, I regret to add, that I have never read his economic

works, although economists who have and who understand them, <sup>do not share</sup> ~~tell me~~ your contempt for them. I note that <sup>Keynes is Chairman</sup> ~~that he is highly intelligent, and that if we had applied his economic~~ <sup>of the National Mutual</sup> ~~sense to our situation, we would have managed our affairs better than~~ <sup>Life Assurance Co. Since 1912 he has been editor of The Economic Journal,</sup> ~~the quarterly of the Royal Economic Society, of which the King of England is the~~ <sup>patron, and to Prof. A. C. Pigou, its President. Its Council is composed</sup> ~~we have. I cannot vouch for this, but I am interested to hear from you~~ <sup>that your conclusion as to what his views are is so unfavorable. I</sup> ~~of many of the most distinguished economists and experts in the British~~ <sup>Empire. In addition this economist who, you say, is "without honor in his</sup> ~~trust you have comprehended his views more accurately than you have mine.~~

Having disposed of the Messrs. Foster and Keynes, you come to the question of British recovery, and you say, ~~that~~ "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 revived prosperity." I have been told by some of our own business men and bankers that British business does not frighten as easily as ours does, as would appear from the acceptance long ago since in England of such <sup>measures</sup> ~~things~~ as unemployment insurance, social security, collective bargaining, and security regulation--to mention a few <sup>so-called reforms</sup> ~~of these things~~ that have brought <sup>aroused strong resistance</sup> ~~the~~ violent outcries from large

... has been called with various  
 ... served under or been called by various  
 ... ~~British~~ ~~Cabinet~~ ~~Minister~~  
 ... own country has served under or been called by various

sections of our business community. However, this is beside the question of government fiscal policy, though I should like to repeat that I object to government competition with, or any kind of harrying of, business because ~~such things~~ <sup>this</sup> defeat the very purpose of the policy I favor of resorting to government spending only as a stimulus to restoration of the greatest possible degree of private enterprise. If government discourages, displaces, or otherwise holds back private business, ~~this would be~~ <sup>it is</sup> wholly inconsistent with the policy I have continuously advocated and still do advocate.

Turning, however, to the question of British fiscal policy, it should be remembered first of all that our situation and the British situation are hardly comparable, and it does not necessarily follow that what may be good for the British is also good for us. I am always somewhat suspicious when it is suggested that we should do as the British do in matters of public policy. <sup>However, the British case has</sup> I ~~had merely~~ <sup>Accordingly, I</sup> called attention to the fact, in ~~a recent~~ <sup>my</sup> address, <sup>in New York</sup> that if British tax rates were applied in this country, we, too, would have a balanced budget, even on our present level of national income which has not yet risen to within \$10 billions of the pre-depression level, although British national income is considerably above the 1929 level. However, I have not seen ~~any~~ evidences that American business and financial interests favor applying ~~any~~ such high ~~rates~~ <sup>rates</sup>, especially of income and inheritance taxation in our country either now or at any time since 1929, and you take pains to emphasize that you are opposed to it too. So far as I am concerned, I

*been cited repeatedly as though it disproved the efficacy of deficit-spending.*

favor now, as I have all along, higher income taxes on the intermediate or middle brackets and a spreading of the income tax base, though, of course, I recognize that this is politically ~~highly~~ unpopular. *However, I would be opposed to that aim at this time that tended to bear heavily on consumption.*

You evidently overlook, also, the fact that while our national income fell from \$80 billions in 1929 to \$40 billions in 1932, or by 50 per cent, the British national income fell only from \$\_\_\_\_\_ in 1929 to \$\_\_\_\_\_ in 1932, or but 10 per cent. They have recovered faster, to be sure, but they did not have to recover so far because they ~~had no such collapse as we suffered~~ *had no such collapse as we suffered* ~~had not had so far to come back~~. Moreover, they recovered, not by reducing public expenditures, as you have advocated since before 1932, but by maintaining a high level of public expenditures for relief, housing, armament and in other ways that sustain public purchasing power.

For 1937 their expenditures were about \$4 billions, or approximately ~~10~~ per cent of their national income, even though their national income had not only been fully restored but even exceeded the 1929 level. In the same year our Federal expenditures were about  $11\frac{1}{2}$  per cent of our national income, which was still fully \$10 billions under the 1929 level. Had our national income in 1937 been restored to the same relative level as the British, as compared with 1929, it would have been \$88 billions, and if our government had spent relatively as much as the British government did in that year, or 11 per cent, it would have amounted to

~~\$8,800,000,000~~, or about ~~\$700,000,000~~ more than we actually expended.

Or, looking at it from the standpoint of taxes, had we applied the British rates to an \$88-billion national income, we would have collected \$ \_\_\_\_\_, or more than enough to balance our budget with a surplus of \$ \_\_\_\_\_ *which could be applied to debt reduction* ~~left over.~~

Those who, like yourself, cite the British example apparently overlook still another significant fact, namely, that the British national debt has remained at high levels ever since the war and at the present time is approximately ~~the same as~~ *equivalent to* our Federal debt, notwithstanding the fact that, as you point out, we outnumber the British three to one and have superior resources. ~~Notwithstanding the~~ *Despite* restoration of the British national income to a level above that of 1929, their national debt exceeds their ~~national~~ *current* income by some \$10 billions. Our national income, although still short of 1929 levels, nevertheless is ~~about \$25~~ *current July \$20* billions larger than our national debt.

I wonder what our business and financial leaders, who are alarmed by our present national debt, would say if a true comparison were made with the British example which they are prone to cite. On a comparable basis, our national debt would exceed \$100 billions today. You speak of the crushing burden of our present debt that is to be passed along to our children and grandchildren. The burden of the British debt is infinitely more <sup>fr</sup> crushing, yet strangely it does not seem to have demoralized British business, finance and industry or prostrated present generations who have inherited it and are, indeed, adding to it.

I wonder what our business, financial and industrial leaders, who complain about our present levels of taxation, would say if we had the British income and inheritance taxes.

You wonder why British recovery from the ~~and~~ <sup>would</sup> depression has outstripped our recovery. I do not profess to ~~know enough~~ <sup>be adequately informed</sup> about the British <sup>economic</sup> situation, but I do know that the British recovery has not been deterred by alarm over their debt, though you appear to think that ~~this~~ <sup>is</sup> ~~is~~ <sup>is</sup> holding back recovery in the United States. I do know that British recovery has not been held back by high tax rates, although you appear to think that our rates, which are ~~much~~ lower, hold back recovery in the United States. I do know that British government expenditures, though they are relatively much greater despite full recovery than our government expenditures despite the fact that we have not yet fully recovered, have not held back their recovery, although you appear to think and, in fact, you say specifically that they are deterring recovery in the United States. I do know that we could balance our budget likewise if we were willing to apply such high taxes. Therefore, I do not see what is left of the argument so often appearing in editorials and political speeches to the effect that the British recovered because they balanced their budget.

It is self-evident from the facts of the case that this has nothing to do with it. My ~~own~~ personal opinion would be that the explanation is to be found in the fact that the British government, by its fiscal and monetary policy, functions so as to maintain a more even flow of money

in the economy and so as to maintain a better balance between accumulations of investment capital on the one hand and public purchasing power on the other hand. The effect, in my opinion, ~~helps~~<sup>is</sup> not only to sustain existing production and investment but to encourage new production and new investment. This essentially is what I believe we must better understand in this country. It is fundamental in my own approach to monetary and fiscal problems.

You state that "stripped to the bone, the main issues between ~~you~~<sup>us</sup> 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 am sure that you intended to state fairly the issue as you see it between us. But I think your statement of it reveals that you do not understand my attitude at all.

I agree ~~with you~~ unreservedly that genuine prosperity must come from the productive industry of the citizens of our Republic. I think that the government can contribute to that end by an intelligent and coordinated management of its fiscal, monetary and other policies. You think that the government ~~cannot and~~ should not unbalance its budget and thus incur deficits and debts in contributing to stimulation of the revival of private enterprise in depressed times. Conversely, I believe that government stimulation should be withdrawn when private activity expands and we are approaching reasonably full employment. In this way, it seems to me,

government fiscal, monetary and other policy may tend to offset deflation on the downswing and the dangers of inflation on the upswing. I think that too often in the past such policies have tended to have a perverse effect intensifying deflation on the downswing and failing to curb, if, indeed, they do not encourage, speculation and inflationary developments on the upswing.

In choosing among the practical alternatives before us today, I feel, as a business man and banker, that the most rational and practicable solutions for our major domestic problems lie along these lines. You will agree, I know, that the extreme of laissez faire is as impossible for us to have in modern times as the other extreme of regimentation and dictatorship <sup>is</sup> ~~are~~ intolerable and incompatible with our free institutions. Therefore, the choice seems to me to be largely one of determining to what degree, how, and at what times government can and should intervene, always with the objective of maintaining a maximum of private enterprise.

Accordingly, I am opposed to government competition with private enterprise and I am opposed to bureaucratic regulation, to fixing of hours, wages, profits, or other <sup>minutely legislated</sup> conditions of doing business, because, in my judgment, this tends to stifle private initiative; and I would favor only such exceptions to this general principle as would seem to be unavoidable in the public interest. Therefore, I am led as a banker and business man to the conclusion that the government should, as a general principle, intervene broadly in a functioning <sup>al</sup> manner through its fiscal and monetary

*to see present day problems, leaders to maintain the general approach and among things like financial*

powers, rather than to attempt what seems to me to be the impossible task of regulating and policing individual businesses.

I am encouraged to persist in my general approach, despite the widespread misunderstanding on the part of business, banking and financial leaders and on the part of the press that reflects their views, because I can see no other practical alternative both in their own selfish interest and in the interest of the country at large, *and because I have reason to believe that there is a growing body of competent, disinterested*

*part opinion with in the professional economic field*

In the light of this general approach, which I have endeavored to state from time to time, and re-stated in my New York address which was the subject of your personal attack upon me, it cannot justly be said that I believe "a national debt is a national blessing and that recovery is born of debts and deficits". I have stated, as I did in a radio talk last Monday evening, and I should like to repeat, that we must look at the problem of national debt in true perspective and that alarmist talk about it is neither calculated to encourage recovery or to induce private capital to go to work.

I am quite well aware of the differences between public and private debt, but I am also aware that under our economic system we have never had periods of depression without a contraction of debt and we have never had periods of prosperity without an expansion of debt. You make much of the fact that private long-term debt is to help finance the creation of durable goods; that, in other words, private debt bears a direct relationship to income-producing private wealth, whereas public debt does not.

But you would not have, and certainly I would not have, public debt used to build income-producing plants and factories, for that would be to compete directly with private enterprise, which is exactly what I believe should be avoided. That is the reason why I feel and have repeatedly stated that government expenditures should be used to <sup>employ</sup> ~~use~~ idle men, idle resources and idle money <sup>only</sup> at such times as private enterprise is unable to do so and only in such ways as will not compete with or discourage private enterprise.

You state that, "Debt has been one of the main causes of every major depression we have had." But debt is an inescapable part of our economic functioning. Therefore, you would be more accurate if you said that debt <sup>also</sup> has been one of the main causes of prosperity as well as of depression. The difficulty is not with the debt itself, but with our inability to maintain a flow of money adequate to service and pay ~~the~~ debts. I agree that we have too often incurred unsound debts, such as those which characterized much of the frenzied finance of the late '20's, or those that went into the making of billions of dollars of uncollectible foreign loans. Bear in mind that these foreign loans were not debts contracted by our people, but by foreigners. They did not add to our total of debts by one penny, but they nevertheless were unwise and unsound.

The debts that were incurred in real estate and other speculation in the late '20's to construct over-priced apartment houses, skyscrapers, etc., were also unsound, and the money that flowed from corporations and individuals into stock market speculation and the bidding up of existing

equities would have been better spent had it been channeled into the hands of those who needed it and would have spent it for <sup>for</sup> food, clothing and other necessities of life produced by farm and factory. This period is a vivid example of our failure to maintain a proper balance between the accumulation of profits and investment funds on the one hand and purchasing power necessary to sustain existing production and employment and to encourage new production and employment on the other hand.

It is precisely because I do not want to return to any such evils as these that I think we must learn to manage our affairs, governmental and private, more intelligently. It would be better, I think, if we had more equities, more shareholding in the form particularly of preferred stocks, and fewer debt forms in our economy. *But under our economic system debt forms predominate.*

First of all, we must learn to appraise debt as a mechanism and means to an end, ~~and~~ to see it in relationship to income, and to understand that unless we maintain a more even flow of money through our economy, we will find ourselves unable to service and bear even those debts that have been prudently and legitimately contracted in the course of our normal business affairs. Debts are large or small in relation to income, and the maintenance and increase of national income depend in turn upon a steady and expanding flow of funds through the economy. You plead that you are inexpert in these matters, but surely they are not difficult to understand, especially by men of your attainments who are willing to think them through calmly and reasonably.

I think it most unfortunate, as I have said, that we did not pay down our war debt much further during the '20's instead of reducing taxes and thus encouraging speculation and creation of unsound private debt. We would not then have entered this depression with so large a national debt to begin with. This is another reason why I so strongly favor the general policies which I have advocated, incurring public debt in bad times as an offset to the contraction of private debt, recognizing always that this has to be done on a leverage basis and cannot be done dollar ~~by~~<sup>for</sup> dollar, and contracting public debt in boom times as an offset to the dangers inherent in overexpansion of private debt.

At the same time I think we would do well to study the problem of public debt from another aspect. We have today a structure of legal requirements as well as tax exempt features which channel an enormous amount of our savings into government debt forms, Federal, State, municipal, etc. We could not wipe out any large amount of these debt forms without ~~finding~~<sup>providing</sup> a substitute outlet for the investment of savings. As you know, our savings banks, insurance companies, and other fiduciary institutions are now compelled by law to invest only in high-grade bonds, which are a form of debt. The supply of such bonds issued by private industrial corporations with high ratings is so small relative to the volume of investment funds today, that we find the banks and other financial institutions obliged to invest in various short and long-term government obligations, Federal, State and local, notwithstanding the unprecedentedly low yield on ~~these~~<sup>such</sup> securities. In addition, we have so vast an accumulation

of excess reserves in the banking system, originating primarily from the tremendous inflows of foreign capital into this country, that the banking system as a whole could absorb literally tens of billions more of securities if they were available in the market. The supply of short-dated Treasury issues has been so small relative to the demand as to be at times on a no-yield basis. Under such conditions any present material contraction in the public debt would tend only to accentuate this extraordinary situation.

It is clear that in absorbing funds from the market today and for the past five years, the government has not been competing with private industry for these funds. Otherwise, money rates would not have ~~been~~ ~~and~~ continued to be so low. Likewise, the number of unemployed since 1929, though materially reduced as private business expanded, has run into the millions and has been added to annually as population increases. Therefore, it cannot be said that on the whole the government has competed with private industry for man power, although there may be specific instances to the contrary in the case of certain skilled workmen. I not only believe that this should be avoided, but that we should have vocational training to prevent bottlenecks developing in the supply of certain skills, especially in the building trades. No one contends that we lack natural resources and that thus the government has competed with private business in this respect.

When the government does not compete with private enterprise for funds, man power or natural resources, I do not see how it can be said justly that when <sup>Government</sup> ~~it~~ uses these three essentials of production on useful

public works for roads, schools, hospitals, CCC camps, public buildings, slum clearance, all of which are useful and necessary for the public and none of which ~~are~~<sup>is</sup> or can be expected to be produced by private enterprise, it is wasteful or that it is discouraging private enterprise.

It is said that the mere fact that we have had continued government deficits and that our national debt has increased has deterred business from undertaking investment, employment and production. However, the facts of the record since 1933 point to an exactly contrary conclusion. If, indeed, the volume of ~~our~~<sup>national</sup> debt is a deterrent, then it seems to me that it must be because we do not see ~~them~~<sup>it</sup> in correct perspective.

You said that "our public debt, national, state and local, now averages \$430 for every man, woman and child in the country, and that 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." But, of course, every debt when created is owed to somebody. Every mortgage when entered into is owed to somebody, and the debt averaging \$430 per capita that you cite is also owed to all of our people, if you are going to speak of it in averages, and thus the average that is owed to every man, woman and child in the country is <sup>also</sup> exactly \$430. The interest being paid on this debt is being paid to our people, and when the principal is paid, it will also be paid to our people. It is not as if we owed the money to people in some other country.

You state that "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)." Of course, private debt will also be passed along to future generations and so will the assets which have been created by present generations.

But aside from this, it would seem to me that you fail to see that we are not passing along just a fixed level of national income to our children and grandchildren. Our national income has grown generation by generation just as it has in England. I am not prepared to believe that we have reached a period of stagnation in the United States and that our children and grandchildren cannot expect a national income, not merely of \$80 billions a year, but of far more than that. In that case, far from being in chains, they will hardly find the debt the great burden that you seem to think it will be.

In your letter to me you quote Jefferson and Jackson in their opposition to national debt. They were great statesmen of a new world and they did not hesitate to break <sup>with</sup> ~~out~~ <sup>the</sup> ~~old~~ conditions of the old world. They rightly perceived the dangers surrounding bureaucratic administration of public funds. They were speaking in a day when ~~they~~ we did not have millions of idle men and idle funds. Indeed, through most of our history we had such a shortage of investment capital that we bid at high interest rates for it, and absorbed not only ~~such~~ <sup>investment</sup> capital as rapidly as it accumulated at home, but borrowed heavily from foreigners. These funds were almost automatically transferred into new production, into the building of America, so that it became axiomatic that as investment

capital accumulated, it went into the production of new real wealth *rather*  
~~It did not go~~ into speculative and other comparatively unproductive  
channels.

We face a very different situation today, and I have already outlined the dilemma that has confronted us since 1929; namely, that the outlets for investment funds are far less at this juncture than the supply of such funds. In Jefferson's time, or, for that matter, in Jackson's day, there was no reason or justification for the government to incur debt, with its admitted dangers, to put to work idle men and idle capital that private enterprise was unable to use. This is a modern problem and I believe, as I am sure you will, that great pioneers like Jefferson and Jackson would be no less willing to face and deal realistically with this problem today than they were to face and deal realistically with the problems of their times.

It is because of these considerations that I favor giving every possible encouragement today to what has been properly called "venture capital"; that is to say, investment funds that are used to construct new plants to produce new products.

Our industrial progress in the past has not been a steady, upward line. There have been periods of slowing down. The great forward thrusts of new investment have been intermittent. At times in the past men have believed that we had reached the limitations of our expansion and that we were doomed to be a stagnant nation at far lower levels of prosperity than we subsequently achieved. The great era of railroad expansion and the various stages of industrial development were

not and could not have been foreseen. Therefore, I think it would be sound public policy to give special encouragement today to new invention that may help lead the way to still higher levels.

With reference to the question of taxes, I, of course, did not say that the increase in revenues which we have derived since 1932 was unaccompanied by an increase in tax rates or by the imposition of new taxes. You mention the social security taxes, and I think that they are a very important consideration in the whole problem because they come largely out of consumption. Therefore, when the government, ~~with one hand~~, collects a billion dollars in social security taxes derived largely from consumption channels and expends these same funds, the government has contributed nothing to the sum total of purchasing power. ~~They have~~ <sup>It has</sup> in effect taken ~~it~~ <sup>a sum of money</sup> out with one hand and put it back with the other. If we are to have public funds expended with a view to stimulation of purchasing power, then manifestly it becomes necessary for the government to put in more than it takes out, or there is no net contribution to purchasing power. Nor can we have such a contribution without deficits because it follows that on a pay-as-you-go basis, the government takes out as much or more than it puts back.

It is true, as you point out, that we have recovered from past depressions, including the one of 1921-1922, without government spending. I undertook to deal with the basic changes in our economy when I spoke over the radio last Monday evening, and I shall not extend this letter by repeating here what I said then. Fundamentally, the difference between conditions now and what they were through most of our history

can be expressed in terms of a superabundance of investment capital relative to productive outlet today, or in terms of a relative lack of markets at the present time either at home or abroad. In either case, I can no longer assume, as I think many business and financial leaders have assumed all along, and as I myself did until after 1929, that in the absence of government expenditures, private capital would flow into production either in existing or in new industry on any scale sufficient to absorb a large number of the unemployed or to use a substantial amount of the investment funds now accumulated and seeking outlet. I do not doubt that there may be individual cases of capitalists who have become so alarmed by persistent talk of inflation and a distorted view of public policies and of public debt, that they have been intimidated and will not risk their capital in production.

It may be that our tax laws should be revised with a view to increasing the incentive for capital to go to work in production of goods. However, from the large volume of private investment and activity that followed and continued as long as the government's stimulus to purchasing power was maintained, it is evident, I think, that the taxes, the deficits, and the national debt have not been <sup>major</sup> deterrents, when we look at the country as a whole. Let us by all means remove such deterrents as may exist, but in the light of our experience since 1929, I do not want to make the mistake of believing again that private capital will flow into new production and give employment merely by having the government withdraw its stimulus to purchasing power.

We waited vainly for four long years for private enterprise to forge ahead without government stimulation through expenditures, when we had none of the alleged tax and policy deterrents of which business men are wont to complain today, when, indeed, everything was being done that business leaders recommended for the encouragement of private enterprise. Yet, we did not have ~~any~~ sustained recovery. They were demanding then as they have ever since that the budget be balanced, and it was not until the present Administration embarked upon a definite program of stimulating purchasing power through government expenditures, which entailed increased deficits beginning in 1934, that private enterprise did in fact forge ahead and continue upward until that stimulus was materially withdrawn in 1937. We then witnessed one of the sharpest setbacks in economic history. It continued until the government again stepped up its stimulus to buying power.

That is why I am opposed to withdrawing that stimulus again at this juncture. That is why I am convinced that the way to balance the budget is to maintain the stimulus until recovery is much further along than it is now and until national income reaches a point, as it did in 1936 and 1937, where our budget situation will be improved through increased revenues derived from increased national income.

You devote several paragraphs of your letter to me to refuting the idea that public debt need never be paid. I have never made any such statement, but I have said and I believe that the time for paying it down is not when we are struggling toward recovery after a severe deflation, but after we have achieved a reasonably full recovery, when

paying down the debt would have a powerful influence in preventing the selfsame inflationary dangers which you see ahead.

The spectre of inflation has been held before our eyes ever since the depression began. I want to repeat that I do not think we should be consigned to a perpetual deflation ~~in~~ <sup>for</sup> fear we cannot control inflation. We can and we should control inflation through giving adequate fiscal and monetary powers to the Treasury and the Federal Reserve System. So long as we have millions of unemployed men, idle money and idle resources, our ~~trouble~~ <sup>problem</sup> is not uncontrollable inflation but persistent deflation.

You seem to find it inconsistent because I advocated an approach towards a balanced budget as early as March, 1936. But just as I advocate government expenditures to stimulate recovery of private enterprise in bad times, I advocate withdrawal of government expenditures, the elimination of deficits and the balancing of the budget in good times. At this juncture in 1936 we were having such a rapid expansion of private borrowing and spending that I felt it was ~~high~~ time to begin a withdrawal of the government's stimulus. Instead of that, government expenditures not only remained unreduced, but Congress voted \$2 billions of a soldier bonus on top of the large volume of both private and public expenditures in the year 1936. Then in the succeeding year-- 1937--there was no \$2 billions of bonus money put into the spending stream and the Treasury began collecting social security taxes, so that there was a net difference of somewhat more than \$3 billions in what the Treasury put into the spending stream in 1937 as compared with 1936.

I believe that the situation was over-stimulated in 1936 and that this, in combination with other factors, resulted in an unbalanced condition, and that in 1937 the government's stimulation was too sharply withdrawn.

I think it is clear that the timing of government expenditures was unfortunate; that it had an unstabilizing effect and that, therefore, we must learn to use fiscal and monetary powers so that they will contribute to a more orderly economic progress, ~~and not have unstabilizing effects on our economy.~~

It became apparent by the fall of 1937 that we needed to correct the dislocating factors which had halted progress, particularly in the fields of housing and construction, railroads and utilities; that we needed to correct industrial and labor policies that were tending to force prices up faster than purchasing power, and that we needed to remove various other deterrents so that recovery could again proceed and continue upward. Consistent with my beliefs, I therefore advocated a renewal of the government's stimulus to private enterprise so that this definitely beneficial factor should not be lacking while we corrected other deterrents. My only regret is that the renewal of the government's stimulus was delayed until the summer of 1938. I believed then, as I do now, that had we timed policy better, we need not have had over-stimulation in 1936 and relatively under-stimulation in 1937, and that we need not have had as severe a setback extending into 1938.

You asked whether I advocate continued deficits for an indefinite period until an \$80-billion national income is reached. I have never advocated any such policy. I felt that the government should begin tapering off its expenditures or increase taxes in order to move toward a balanced budget when private business was rapidly expanding in 1936 and we appeared to be on the way to a national income of \$80 billions, provided there was no interruption of the recovery.

It should be remembered that any given figure--such as \$80 billions--depends on the price level. Conceivably we might have an \$80-billion national income on an inflated price level while we still had millions of unemployed. Because of the inherent dangers in the too rapid advances of basic material prices due to a combination of causes beginning late in 1936, I ventured to issue a statement in March of 1937 pointing out that this was a dangerous trend which we should not attempt to curb by a tight money policy at a time when we still had ample idle human and material resources. I emphasized that monopolistic price and other policies, whether on the part of industry or labor, were contrary to the public interest and could only result in halting the continued progress of recovery.

It soon became apparent that the costs and hence the prices of housing and construction were rapidly outrunning capacity to buy. Thus, in the spring of 1937, instead of having the long overdue upturn in this major depressed industry, we actually had a counterseasonal downturn. We discovered that we could have a seriously disturbing and unbalancing price inflation in one part of the economy while we still had millions of unemployed. That is the kind of inflation which I feared then and still regard as the most dangerous, ~~and likely~~ ~~to develop~~. Currency inflation, which you mention as a potential danger, seems

to me to be too remote, certainly under existing circumstances, to be seriously considered. Currency inflation must be controlled and can be controlled by giving adequate powers to the Treasury and the Federal Reserve System.

You ascribe to me the belief that "the way to maintain the solvency of the government is to continue indefinitely to increase its debt." I have never said any such thing, and I think it must be apparent from our discussion so far that this is a misunderstanding on your part.

You estimate that the national income increased from \$40 billions in 1932 to \$60 billions in 1938, while during the same period, the national debt has increased by more than \$21 billions. You regard this as a bad investment. But taking your own figures, this means that we have \$20 billions a year more in national income out of which to service the increase in the debt. In other words, if national income were to increase this rapidly in relation to the increase in the debt, we would be progressively better off as compared with 1932.

You then state, "I believe that for every dollar the government borrows and spends in pump-priming, private enterprise is deterred from spending two." I think that the record since 1933 proves precisely the opposite. I find this statement of yours hard to reconcile with your further statement that the government expenditures have in fact been a stimulus. You will agree, I am sure, that they could not have been at one and the same time both a deterrent and a stimulus.

If you were to cite specific cases in which government expenditure has competed with or has discouraged or displaced private expenditure, I would agree with you fully, because I think there have been such instances and I have not hesitated to say so publicly, especially in connection with the utility field.

But I am confident that on reflection, you would wish to modify the sweeping

assertion which I quoted above.

You remind me 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." This was the period immediately following the bank holiday, when we reached the lowest point of economic prostration in all of our history. The re-opening of the banks released a tremendous amount of pent-up purchasing power. This was also the period when the N. R. A. was launched, setting in motion an almost feverish, but short-lived, boom, to a considerable extent precipitated, as was afterwards said, in order to "beat the codes". Industry therefore rushed in to hire men and to accumulate inventory against the fear of impending restrictions and higher prices. But this all collapsed with <sup>in July</sup> ~~dismaying suddenness~~ because there was no real bottom of substantial public purchasing power under it.

It was not until the government in 1934 for the first time undertook a real program of restoring this purchasing power that the recovery got underway and continued steadily until the price distortions and other dislocating factors halted it in 1937. True, for the five extraordinary months which you cite in 1933 we had a temporary industrial boom while we were pursuing what you describe as a "sound fiscal policy", but we had for nearly four years a sustained and ever-widening recovery subsequent thereto when we were pursuing what you describe as a policy of "fiscal insanity".

I need not dwell on your references to relief spending. However, in your address in Boston you stated that "millions of able-bodied citizens rely upon the government for support and have ceased to exert their effort for self-help and to obtain private employment." Such a sweeping assertion I felt, and said, could not be justified. You admit as much, because in your subsequent letter

to me you have modified this statement and speak of "many" and not "millions". I, of course, agree that the pampering of ne'er-do-wells and the contamination of relief rolls by politics or any other abuses are indefensible. I have continued to advocate that those on relief should be on a non-competitive basis with private industry so that the inducement will always prevail for them to seek work in private enterprise and not remain on relief rolls. This does not mean, however, that I favor a dole or a mere subsistence level.

Likewise, I have never favored the Means test requiring those who wish to qualify for relief jobs to declare themselves in effect to be paupers. I think this is far more demoralizing and destructive of character than the fact that men are doing public work. I feel that it should be as dignified for a man to work on public <sup>work</sup> relief, though the pay may be pitifully small, as it is for a man to work for the government in any other capacity and at higher salary.

Finally, you raise under the heading "Spigot Spending", the question of the difficulty of managing such a fiscal program as I have in mind. I think that here you have put your finger on what I regard as the only formidable obstacle. I do not believe that objections can be sustained on economic grounds, but I have recognized all along that the difficult questions of the amount, the direction, and the timing of <sup>public</sup> expenditures require an able, competent, non-partisan management. I am not willing to believe that we are incapable of developing such a high degree of public service, that we lack the understanding, the brains, the patriotism, to do the job reasonably well. It does require, as you ~~evidently~~ perceive, a different approach and a different attitude toward the whole problem of government fiscal and monetary measures.

Since there is no prospect that you and I in our lifetime will ever witness a reversion to only a small amount of government expenditures, I think, as a practical matter, that we are faced with these alternatives: Either we can go on appropriating and expending funds, imposing or removing taxes or otherwise managing policy with little regard to the economic consequences, as we have done too often in the past, or we can attempt a better management, a better coordination of these policies with a view to contributing, insofar as government policy can do so, to a more orderly economic progress. I see no reason why a permanent fiscal and monetary advisory group similar to the one already created cannot function with a high degree of effectiveness in ~~recommending~~ recommending specific policy, taking into account the various factors which I have mentioned. In any case, it seems to me to be eminently better for the country to tackle the problem along these lines rather than to permit a continuance of a disjointed, unrelated hodge-podge of actions and policies initiated and promoted by ~~all~~ <sup>many</sup> the diverse agencies of government. I am confident that an able leadership could carry through such a general coordinated policy with a large degree of success. Certainly, the making of a sincere effort to do so could not help but produce better results than ~~we have had in~~ <sup>a failure to</sup> ~~the past.~~ *make the attempt*

Let me add a final word about what you refer to as "deficit recovery". Here again you mistake my position. Manifestly, the only way that the government can make a net contribution to purchasing power is through a deficit. If the government collects with one hand as much as it spends with the other, there is, of course, no deficit and there is no net contribution to the spending stream.

The magnitude of the deficit, that is to say, the amount that the government puts into the spending stream in excess of what it takes out, should be determined in relation to the number of able-bodied unemployed and, of course, should be tapered off as private enterprise revives and absorbs more and more of the unemployed. At best, the government's contribution can be only a relatively small part of the total. I am convinced that even this small part has a very high leverage and disproportionately stimulates business and thus increases the national income.

Indeed, I think this is the vital point to remember. Various efforts have been made to measure what has sometimes been termed "the multiplier", that is, the ratio <sup>by</sup> at which the expenditure of public funds stimulates business and creates national income. I must say that I find such computations less understandable and less convincing than the factual record since 1929.

In the period from 1929 to 1933 total debts, both public and private, contracted by 14 per cent. In the same period national income fell by more than 50 per cent. In the years 1931, 1932 and 1933 we incurred large Federal deficits because the shrinking national income yielded less and less revenue. These deficits aggregated \$7 billions at a time when the government was pursuing the fiscal policy which you regard as sound, and at the same time, as I have pointed out, there was no increase in national income, so that Federal debt mounted but national income decreased.

Beginning in 1934, and not until then, did the government embark upon a deliberate policy of deficit-spending to revive purchasing power and thus stimulate private enterprise. In the years 1934, 1935, 1936 and 1937 the government made cash loans and expenditures, including the soldiers' bonus, of

\$11 billions more than it collected, including payroll taxes. Yet, national income rose from approximately \$40 billions in 1933 to \$70 billions in 1937. The combined increases in the national income for these four years, as compared with 1933, aggregated \$70 billions, or more than six times the government's cash deficit of \$11 billions for the same period. To my mind, this record speaks for itself.

At this juncture, as I have stated, we undertook too sharply to withdraw the government's stimulus. Actually, from July, 1937, to March, 1938, inclusive, the Federal government had a cash surplus of \$100 millions. That is to say, in this period the government collected in cash \$100 millions more than it paid out. Far from contributing to the spending stream during this period, the government thus subtracted a net of \$100 millions from the spending stream. Without an offsetting contribution to the spending stream by private enterprise, the inevitable result was a severe shock to the economy, even had there been no other dislocating factors. It was not until the government again renewed its contribution to the spending stream beginning in the early summer of 1938 that the tide was again turned and recovery once more forged ahead towards higher levels of national income.

Now, the foregoing statement of our experience since 1929 is a fact, not a theory. It controverts your idea of fiscal policy far more forcibly than any words or argument could possibly do. It is a visual demonstration not only of the efficacy of the government's stimulus, but it is <sup>plain evidence</sup> ~~proof~~ of the fact that this is the road to the balanced budget which we both desire to achieve.

This letter is already overlong because I have endeavored to discuss, point by point, the many matters raised by your letter to me. I have passed by some of the points which ~~seem to me~~ do not bear directly on the issue be-

tween us, but I wish to add one word in connection with the subject of debt to correct the manifest misunderstanding on your part in connection with the studies of the Twentieth Century Fund.

As if it were an argument against the Federal debt, you quote this distinguished group of scholars as saying: "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." (p. 254, "Debts and Recovery".)

If you will re-examine the text, you will note that the Committee is not referring at all to the subject of Federal debt. It is discussing a matter I have already mentioned, namely, the desirability of having more equity and fewer debt forms in our economy as a whole. It has no relation whatsoever to the subject of Federal debt as your letter erroneously states.

Likewise, you are under a misapprehension when you quote from the same authority a statement to the effect that the Federal government should begin substantial debt retirement in 1939. This quotation is from a volume entitled, "The National Debt and the Government Credit", which was published in the middle of 1937. However, you neglected to quote the very important clarifying statement appearing in the same text, and reading as follows: "Unless a serious setback in business activity occur, substantial debt reduction should commence in the fiscal year 1939." (p. 154)

This was written during the spring of 1937 under the assumption that there would be no reversal in the trend of business activity. It conforms exactly to my own position at that time. That the Committee would not recommend a policy of debt reduction during a business recession, is made amply clear in

the same text. On page 153, in the same paragraph from which you quoted, the Committee "comments for serious consideration the statement of Governor Eccles on March 15, 1937," in which it is brought out that the public debt should be retired in relationship to the expansion of private credit.

The Committee's attitude is further emphasized on page 152 where they say, "We do not regard either the large increase in the public debt or its present size as a cause for apprehension. The resources of the country are undoubtedly great enough to support the present debt. But a continuance of deficit-financing, although necessary in the depths of a depression, would be both dangerous and unnecessary if carried into a period of recovery." That precisely represents my own belief and attitude.

In conclusion, permit me to say that while we approach these common problems from diametrically opposite and evidently irreconcilable viewpoints, I recognize your entire sincerity as you do mine, and if the discussion has served somewhat to clarify the issues and to stimulate thought and public interest, it has not been altogether in vain. I have endeavored to keep our discussion to the issues and to ~~discuss~~<sup>treat</sup> them entirely from an economic viewpoint without emotional or political coloring.

We both recognize that the democracies of the world are challenged today as never before. I have confidence that we can successfully meet that challenge by making our democracy function even more efficiently and productively than ever before. To accomplish this requires leadership, both in government and in business, that is willing to face the problems of the modern world as courageously and realistically as the pioneers of our early history ~~confronted~~<sup>faced</sup> and overcame the problems of their day. We are, in truth, confronted with a condition and

not a theory.

I have very definite convictions as to how we may best meet these modern conditions and preserve our democracy, our institutions, our profit-motive economy, and the essentials, as I see them, which have made America great and will make it still greater. I believe that ~~we can preserve what we both wish to preserve.~~ That we can only <sup>preserve</sup> ~~maintain~~ our institutions and our system by preserving the right to work for millions of our citizens. That is the only justification for all of our economics as it is for our institutions.

Very truly yours,

ET:b