

January 26, 1939

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

My dear Governor Eccles:

The thoughts contained in your radio talk on Monday evening (January 23) give rise to a number of interesting problems and apparent counter-arguments. Since the question put forward, however, is impossible of final answer in view of the countless imponderables involved, it must not be supposed that the following suggestions are in absolute disagreement with your basic contention, i.e., that government deficit spending in depression periods is advisable as a supplement and stimulant to private spending, using only the manpower, materials, and money that otherwise would be idle and using them only in a way that avoids competition with private enterprise.

Aside from the well-publicized but nonetheless undeniable detriment to the progress of industrial enterprise entailed by a large and increasing tax burden, which would seem to be a necessary corollary of a program of government spending, it is difficult to conclude that an increase in consumer spending, initiated by federal "pump-priming", will inevitably result in an increased national income, as you appear to believe. Government gives only what it gets -- there can be no personification of the federal power as a donor of wealth. Every dollar spent by the government on behalf of one citizen must have been received from some other citizen. Therefore, unless government funds are invested in income-producing projects, the net increase in the national income produced by government expenditures is nil. The

*only when Gov't confiscates capital.
Then when deposits are used new
money is created & when bank money
is used new deposits are created.*

sop thrown to business enterprises by possible small increases in sales consequent to receipt of relief monies in one form or another by portions of the consuming public can hardly be considered of sufficient amount to restore such concerns to a profitable operating basis, or to lay the foundation for industrial expansion by effecting an increase in the prospect of profit by rising demand over the long term. Thus the hope of balancing the federal budget by this means is largely dimmed.

In referring to "income-producing projects", I had in mind no specific type of investment or subsidy, but I should like to offer the suggestion, in this connection, that impulsive loans or grants made haphazardly by a hysterical (or politically concerned) central authority in aid of some enterprise considered "fundamental" or "essential", may indeed prove to be anything but income-producing if the profit-making days of the particular industry are past. Care must be taken to distinguish between a temporary recession affecting a particular industry or enterprise, resulting from cyclical movements, and a permanent decline related to a definite switching of demand away from the products of that particular industry or enterprise. The ability to make such distinctions requires an exhaustive analysis of a nature scarcely suited to the emergency demands put forth by a catastrophic cyclical decline in business activity. In addition, the whole scheme of central planning on such a scale assumes a superior intelligence on the part of the federal authorities, an almost divine insight, which it is hardly necessary to state has not yet been in evidence, here or anywhere.

Two statements were made by you which might tend to weaken your position, taken together. In one statement you say substantially that we all admit the necessity of borrowing, private and public, that it was always so in the past, it is natural, normal, and must of course always be so. Then you follow up with this: "... fundamental

changes which have come over our economy which . . . many business men and bankers either have not fully perceived or fully appraised." It may be possible that one of the "fundamental changes in our economy" is a disappearance of the necessity and desirability of borrowing. We know how commercial loans have dwindled to a shadow, the best firms providing themselves with substantial cash resources out of earnings, rendering themselves financially independent, leaving as loan applicants only those concerns who would not be considered except by the Relief Board. As for long-term capital, we see a replacement of the old time bond issue by reinvestment of earnings, among the leading industries, combined with issuance of common stock, if outside funds must be secured at all. In plain words, borrowing has fallen into disrepute. Right or wrong, this would seem to classify as a fundamental change.

I have purposely avoided going into the question of how your principles may have been applied by the administration over the past few years, particularly with reference to avoidance of competition with private enterprise, as I feel you must recognize that the slipshod methods which have been used do not permit of a fair evaluation of the theory itself, and, if anything, indicate the hopelessness of establishing an omniscient federal authority under the present method of selecting our national leaders. (I am not suggesting any reforms in this field!) The policies followed so far show an attempt to ruin the few prosperous industries while prolonging the death agonies of the leading "has-beens" at the expense of the tax-paying community.

The question "what to do about the economic situation" remains unanswered. You have quite possibly considered all the factors submitted here. That government must extend relief to unfortunate victims of trade movements is irrefutable. However, needs of this type should not, in my opinion, be glorified into an economic

theory which can not be proved or disproved except by
ving rise to still further misfortune and maladjustment.

Your willingness to lay open your position on
this subject is commendable, and would appear to indicate
a sincerity and determination of purpose.

Sincerely yours,

Edna M. Thompson

Edna M. Thompson
3222 North 27th Street,
Philadelphia, Pa.

February 9, 1939

Miss Edna M. Thompson
3222 North 27th Street
Philadelphia, Pennsylvania

My dear Miss Thompson:

Mr. Eccles has asked me to acknowledge and thank you for your letter of January 26 which he has read with interest. While it is evident that you are dubious as to the success of governmental intervention in the economic field, you recognize the inability of private enterprise to meet many of the problems which result from the workings of our economic system. While Mr. Eccles is convinced that government must play an active role in the economic field, he is likewise thoroughly aware of the difficulties of coordination and timing involved in such a theory. In this connection I thought you might be interested to read his address before the New York Chapter of the American Institute of Banking on December 1, 1938, and I am enclosing a copy herewith.

Yours sincerely,

(Signed) Lawrence Clayton

Lawrence Clayton
Assistant to the Chairman

enclosure

Received in
Chairman's Office

LC/fgf

JAN 27 1939

Board of Governors
of the
Federal Reserve System