

February 24, 1943.

Dr. W. Randolph Burgess,
Chairman, Economic Policy Commission,
The American Bankers Association,
55 Wall Street,
New York City.

Dear Randolph:

In the short time you give me I cannot undertake to comment as carefully upon the first draft of the Economic Policy Commission's report as its importance and my interest in it would justify, but I wanted to mention a few points. Let me say at the outset that on the whole I think it aims in the right direction and should be effective for the purpose it is intended to serve.

On page 2, I would insert the word "civilian" about half way down the page where the reference is meant to be to civilian spending.

On page 3, I do not know quite what you mean by the reference to those who make the loudest outcry having the most political power, and my preference would be to strike that sentence.

On page 5, you speak of bank financing as directly inflationary. I suppose, to be accurate, the word "directly" should come out.

The foregoing are minor details, but I am giving them to you as I go along.

On page 6, however, is a point that I think important, and that is the argument and the table to the effect that bank deposits are a good measure of the capacity of different districts to sell Government securities to the public. In view of the great bulk of insurance company and mutual savings funds in New York and also in Boston, and the concentration of inter-bank balances in the New York District, this basis is hardly fair to the rest of the country, and I would omit the table altogether. In trying to work out quotas, we have taken into account these factors in order to make allowance for them. Your table shows that New York was first and Boston second in December. Some other districts that did an outstandingly good job, such as was done, for example, in Minneapolis, show up very badly on this basis of comparison.

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On page 10, the estimate of sales of Governments to non-banking investors from January through June, 1943, is lower than actual sales from July through December, 1942. If you are going to include this table in your report, I think it should be made clear that this assumes that a relatively unsatisfactory job will be done in April.

In the footnote at the bottom of page 11 perhaps you might insert that the bill to free War Loan Deposit Accounts from FDIC assessments and reserve requirements would eliminate them during the war and for six months thereafter.

On page 13, you suggest that, in addition to excess reserves, one yardstick which might be used to measure how much a bank should invest in Governments is a percentage of deposits. This yardstick, it seems to me, hardly reflects a bank's ability to invest. A more accurate measure, next to excess reserves, would be the amount of balances which banks carry with their correspondent banks. In addition, the composition of a bank's portfolio of loans and investments has an important bearing. Banks with time funds or others that are not volatile may be fully invested, though not necessarily holding a large percentage of Government securities. Other banks, holding a large percentage of Governments in the form of bills (which are the equivalent of cash or reserves), certificates and other maturing obligations, would still be in a position to subscribe heavily to new issues.

With some of the general observations, on page 19, belittling what the Government can do towards economic stability, I, of course, could not agree. The whole implication is that all we need do is to teach the good old-fashioned doctrines of hard work and thrift and avoid "excesses", which generally means speculation, and everything will be lovely. That is certainly a super-simplified and, to my mind, totally unrealistic analysis, though I admit that it is the one usually held by my business and banking friends who either have never given any serious thought to the subject or do not wish to be regarded by their fellows as radicals or crackpots by suggesting that possibly it isn't all quite that easy. In this context the sentence, "If there is a spirit of enterprise among millions of people, there is full employment.", deserves some kind of a prize for understatement of the case. The "spirit of enterprise" is effect, not cause. I'm sure you don't imagine that full employment in these days arose spontaneously from the "spirit of enterprise".

You will forgive me, Randolph, for not being too gentle on this point because you at least know my views. Nevertheless, I appre-

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iate your sending me this document, and I send you, as always, my best regards.

Sincerely yours,

P.S. I forgot to mention that on page 15 there is an implication that only banks may use the buying and repurchase provisions on bills. It is broader than that, as you know.

M.S.E.

 ET:b