Mr. Ralph E. Flanders,
Box 477,
Springfield, Vermont.

Dear Mr. Flanders:

We are returning herewith your manuscript on Fiscal Policy and the Business Cycle.

It has been reviewed carefully by economists of our Division of Research and Statistics, who have made pencil notations in the margins to call your attention to a number of minor points. They feel that no general discussion is necessary to supplement these notes, as your manuscript is on the whole a sound statement of the position advocated and indicates that you are already familiar with the general criticisms that might be raised against your proposals.

With regard to the questions raised in your letter of July 17, the following comments appear to be in order:

The velocity of circulation reached an extremely low level because the various factors operating to bring about the very large increase in the monetary supply did not bring about a corresponding increase in total expenditures, that is, in general business activity. What increases in general activity there have been since the depression lows have been met by the increasing money supply. Recently the situation has changed. The sterilization of gold by the Treasury and the recent increases in reserve requirements have tended to reduce greatly the potential amount by which the banks can expand their deposits, while with the curtailment of Government expenditures and increase in receipts, bank purchases of Government securities will probably cease to be an important factor making for deposit expansion. In view of these developments it is probable that further increases in general activity will be reflected in an increase in the velocity of circulation, rather than in an increase in the money supply.

Data on bank debits are available only since 1919. We are enclosing the latest series available, with a covering memorandum explaining the computations. For similar data previous to that year, consult Carl Snyder's <u>Business Cycles and Business Measurements</u>.

The higher velocity in New York is generally attributed to financial operations. One suggested explanation of the greater stability of the volume of funds there is the action of corporations in pulling in funds normally carried in other accounts when the volume of business handled through those accounts falls off.

If we can be of any further service to you in this connection, do not hesitate to write.

Sincerely yours,

M. S. Eccles
Chairman.

LBC:VLB:em