

**FEDERAL RESERVE BANK
OF NEW YORK**

November 17, 1937.

Dear Chairman Eccles:

I have received and want to thank you for your letter of November 15 in reply to my letter on the problems presented by the present business situation.

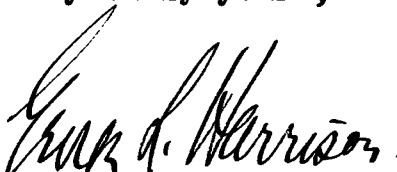
I am glad that in general our views agree with your own conclusions about the basic problems which need to be dealt with. I realize, however, that we do differ somewhat as to the best method of immediate attack. True, there may be some risk in sticking to the principle of a balanced budget if private spending is too slow in filling the gap caused by the diminution of the government's contribution. The question which is immediately raised in my mind, however, is whether a return to government spending might not renew and accentuate some of the uncertainties that are holding business back, and thus further postpone the time when private spending will supplant government spending. Is not the question really whether obstacles to private spending will be courageously and quickly enough removed to justify running the risk to which you refer? Some temporary recession, even admitting that it might be severe for the time being, might in the long run prove to be the cheaper price to pay. At least it seems to us that it is necessary to weigh against that price the risks inevitably involved in an abandonment of the administration's attitude about the budget

and an avowed return to government spending.

I am enclosing a memorandum which, in my last letter, I said that we were working on concerning the financing of business spending. It may be that some of the suggestions referred to are not, for one reason or another, possible of attainment at the moment. We thought, however, that it might be helpful in our study of ways and means of reopening the capital market if we made a careful and thorough survey of the financial machinery as we see it, and the steps which, at least, should be considered as a means of making it run more smoothly.

Perhaps, it will be possible more fully to discuss these matters at our meeting of the open market committee to be held the week after next. Whether or not an immediate return to government spending is resorted to as a means of avoiding a continuation of the recession, as I gather you think, it is important, in any event, to do all that we properly can, as soon as we can, to remove some of the apparent limitations or obstacles to a free flow of private investment.

Very truly yours,


George L. Harrison,
President.

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

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