

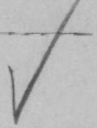


FOR CIRCULATION:

GOVERNOR RANSOM 

GOVERNOR MCKEE 


GOVERNOR SZYMCAK 

GOVERNOR DAVIS 

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Federal Reserve Bank of St. Louis

(Please return to Chairman's files.) 

November 15, 1937.

My dear Mr. Harrison:

Your letter of November 3d reviewing the business situation and enclosing a copy of John Williams' comments states in general terms about what my own conclusions are with regard to the basic problems which need to be dealt with promptly in order to stimulate private business and credit.

As you are probably aware, my principal point of departure from your summation relates to what seems to me to be the importance of sustaining government contributions to general purchasing power while the obstacles to private spending are being cleared away. I am quite aware, as you are, that this is a minority view, doubtless hopelessly so, and I recognize the psychological considerations involved. Nevertheless, it is going to take some time to repair the damage that has been done and to get the stalled machine started again.

While private spending was doubtless larger in 1936 than in 1935 and may be even greater this year than it was last, the amount has not been sufficient this year to make up for the reduced contribution of the Government. I note that John Williams' paper estimates that there will be a decrease in the net income creating expenditure of the Government in this fiscal year of some two and a half to three billion dollars. With the recession in this quarter already evident, increasing unemployment, hesitancy on the part not only of business but of individuals to buy, there is no doubt whatever in my mind that we are experiencing a precipitous decline in dollar purchasing power. For myself, I cannot be blind to the cumulative effects of deflationary forces after our experience in recent years, nor to the futility of talking again about balancing the budget by reducing Federal outlay at a time when private spending is rapidly diminishing and government revenues correspondingly drying up. To my mind this is the height of folly. To be sure, if a quick stimulus can be given to private business soon enough to start things going before the deflation has run too far, we may come out of it all right. I think it is a foolish risk to take. It would be far safer and also far cheaper in the long run not to take the gamble. I am the more convinced of this because Hoover took the

gamble himself and lost.

However, I shall not undertake in the space of a letter to amplify this matter. Otherwise, I find myself rather generally in accord with your summation, which I think is excellent and well stated.

I shall be interested in seeing the supplemental memorandum relating to business financing and the capital markets to which you refer.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,  
Chairman.

Mr. George L. Harrison, President,  
Federal Reserve Bank of New York,  
New York City.

ET:b