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FEDERAL RESERVE BANK
OF NEW YORK 7

July 31, 1946.

PERSONAL & CONFIDENTIAL

Honorable M. S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Marriner:

I have read with interest and have studied the memorandum which you sent me with your note of July 25th. It is a fine presentation of the views which you have been developing in recent weeks, and with much of it I am in agreement. Perhaps its principal defect, as I analyze it, is a product of the climate in which it grew. It tends to emphasize monetary and fiscal controls too much, in the light of their limited possibilities. I know that they have been pretty well ignored in the recent past, but we do not want to try to lean too heavily on them now, even though other controls have been removed or are in process of breaking down.

I should count it a great misfortune if, during the next few months, a fight over fiscal and monetary controls should divert our attention and our energies as did the recent fight over price controls. Neither during the war nor now are controls the final answer. As you say, production is the ultimate answer, and we want attention to be centered on production. But it must be balanced production, with declining costs and increasing efficiency, not unbalanced production at rising costs and with decreasing efficiency; otherwise we shall lose the battle while we may seem to be winning it. Recent statements by leaders of both of the big labor organizations have indicated that this truth is being recognized, and that is to me a most hopeful sign. I think it should be emphasized in any statement of policy that this is what we must concentrate on, and that controls, of whatever kind, will only be effective and helpful as they contribute to this end.

Some of the things you suggest will, of course, make such a contribution. Reduction of Federal expenditures and achieving a surplus in the budget, elimination of unnecessary private, state, and local expenditures, curtailment of unnecessary further creation of credit, and disposal of Government surpluses, are all in this category. I should hope, however, that the budget surplus could be the result of reduced expenditures and increased income arising from increased production, rather than dependent on an increase in existing taxes or a restoration of abandoned taxes. These things, as you know, would be stoutly resisted, and the fight over them would divert attention from the main battle. We haven't time for another diversion of this sort; we have to use the means and the weapons that are available to us now. We also have to keep in mind, I think, that while inflation is now a greater danger than it has been heretofore, the possibility of a reversal of this situation is always present. If repressive measures are emphasized too much they may bring on the deflation which it is our aim and purpose to avoid.

FOR VICTORY

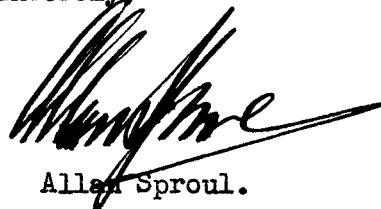


7/31/46.

I should like to urge that the Government take the lead in espousing a business-labor program of holding down wages and prices, and increasing output per man hour. It is only if this is achieved that our fiscal and monetary controls will have a decent chance to make their contribution to the fight against inflation.

I wanted to let you have this general reaction to your statement, partly as an indication of my appreciation of your sending a copy of it to me. I am off for a vacation next month and hope to forget some of these problems, temporarily.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Allen Sproul", written in a cursive style.

Allen Sproul.