

May 17, 1939.

Honorable J. C. Oliver,
House of Representatives,
Washington, D. C.

Dear Mr. Oliver:

I have your letter of May 3 with further reference to the problems of monetary policy and economic stability.

It seems to me that we are in essential agreement on the proposition that it is necessary at this time for the Government to continue its important contribution to national buying power in order to promote business recovery. We disagree only on the method of financing these expenditures. You would have the Government issue greenback currency, while I am in favor of continuing the present practice of selling interest-bearing obligations to the public. I have given you already my reasons for opposing financing through currency issues and I can make no significant addition to my previous remarks.

There is one point on the general problem that I might discuss briefly here. From the standpoint of business recovery, the stimulating effects of Governmental expenditures would not be enhanced under ordinary circumstances by issuing new currency instead of borrowing. It makes no difference to the W.P.A. worker, to the farmer, or to any other recipient of Government funds whether his payment is in the form of a Treasury check or in currency. In either form it is immediately available to purchase the goods and services he desires. The sellers of the goods and services likewise receive the funds free of any debt obligations that might influence their future decisions to spend or hold their money.

It seems to me the main circumstance under which financing through borrowing might detract from the stimulating effects of Government spending is if the purchasers of the securities would have spent their money for consumption purposes or invested it in new capital outlays had there been no new offering of Government securities. In periods like the present when opportunities are decidedly limited for such investments on terms that

FILE COPY

Honorable J. C. Oliver

- 2 -

are attractive to the types of individuals and institutions that purchase Government securities, this is not a matter of great importance. To the extent that Government obligations are purchased by banks, they do not absorb investment funds at all, but rather create new money and consequently new purchasing power. In fact, the greater part of the increase in our money supply since 1933, which has carried it to the highest level on record, has been due to purchases of Government obligations by the banking system.

In view of these considerations, it seems to me that you can continue to urge the adoption of legislative action which would place Government funds in the hands of our "needy and insecure citizens" without fear that the good effects will be counteracted if the funds are raised through borrowing.

May I assure you that I am not bored by your letters and that I am glad to have your views at any time?

Very truly yours,

M. S. Eccles,
Chairman.

*See
for 1936-37*

FILE COPY