Y. M. C. A.
Nashville, Tenn.
Feb. 9, 1951..

Hon. Marriner S. Eccles,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

Will you kindly answer the following questions.

1. What would be the effect on our economy if all purchases were required to be paid for in full with cash? Would it not stop inflation?

2. Since the Government issues both paper money and interest paying bonds and since neither would be worth anything if the Government did not back them up, what is the sense in issuing bonds and paying interest on same? Why not issue enough currency to run the Government?

Please be assured that these questions are asked in godd faith and are not intended to be catch questions.

Yours truly,

T. D. Coffey

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Federal Reserve Bank of St. Louis

February 23, 1951

Mr. T. D. Coffey,
Y. M. C. A.,
Nashville, Tenn.

Dear Mr. Coffey:

In your letter of February 9 you raised two questions; first, whether requiring all payments to be made in cash would not stop inflation, and; second, whether the Government wouldn't be better off if it just issued currency, rather than interest bearing bonds, in financing its deficits.

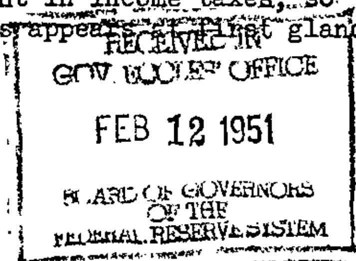
In answer to your first question, I would say that greater self-restraint in the use of credit, rather than its abolition, is what we need to stop inflation at this time. Credit is an essential part of our complex economic system--without it, we should never have achieved the tremendous agricultural and industrial development of the past hundred years, nor would our people enjoy the high standard of living that we all accept as part of the American way of life. If the central monetary and credit authority had adequate powers to curb unnecessary credit expansion and were free to use them as it saw best, and assuming the Government were to operate on a pay-as-you-go basis, we could successfully prevent any further depreciation in the purchasing power of the dollar.

History provides us with a number of examples of inflation of the currency where the only credit involved was that of the government that issued the money. Unless appropriate steps are taken to regulate the supply of currency in relation to the quantities of goods and services produced you are just as likely to have inflation with cash as you are with credit.

In answer to your second question, the financing of Government deficits through the issuance of paper money rather than bonds would result in tremendous inflationary pressures. Bonds provide an outlet for savings--for money which people do not wish to spend to meet current living expenses. In the absense of such outlets for their savings, people might spend that money on goods and services or use it to bid up the prices of real estate and corporate bonds and stocks, while the paper money issued by the Government would swell the supply of funds in the country and cause prices to rise even faster than they have already.

Furthermore, a substantial part of the interest paid on Government bonds is subsequently returned to the Government in income taxes, so the cost of bond financing is not really as large as appears at first glance.

Very truly yours,



M. S. Eccles.

CE:mf

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