WESTERN UNION

1951 FEB 27 AM 9 42

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WU K003 NL PD

WUX MILWAUKEE WIS FEB 26 1951

MR MARRINER S ECCLES

BD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

PLEASE SEND MATERIAL PLUS YOUR ERSONAL VIEWPOINTS ON DEFICIT FINANCING BY THE FEDERAL GOVT FOR A DEBATE DEFENDING THIS QUESTION

RONALD F GOODSPEED MARSHALL AND ILSLEY BANK.

814A

March 1, 1951

Mr. Ronald F. Goodspeed,
Marshall and Ilsley Bank,
Milwaukee, Wis.

Dear Mr. Goodspeed:

In reply to your telegram of February 27, my personal view is that deficit financing should properly be regarded as a compensating mechanism and not as a permanent fiscal policy. At a time like the present, when our productive facilities and our labor supply are being used at near capacity and can be increased only slowly, and when increases in the money supply can only intensify existing inflationary pressures, it is essential that both private and public deficit financing be kept to a minimum. I have discussed this point at some length in an article which I wrote for Fortune magazine and in my recent statement before the Joint Committee (of the U. S. Congress) on the Economic Report. Copies of the article and the statement are enclosed.

The appropriate time for the Federal Government to engage in deficit financing is during recession or depression when effective consumer purchasing power needs to be increased. As I said in an address before the New Jersey Bankers Association Convention in May, 1938:

> "Deficit spending on the part of government should be undertaken in a recession to compensate for the liquidation of private debt and declining private expenditures....Since 1933 the Government has taken action on many fronts to meet the maladjustments and problems created by the disastrous deflation after 1929.... During this period the public debt was increased by about $16 billions gross....
>
> "Deficit spending by the Government for the restoration of activity was a major influence in increasing national income from less than $40 billions in 1932 to approximately $70 billions in 1937. In other words, the additional national income in this one year, 1937, as compared with 1932, was nearly twice as large as the total increase in the national debt over a period of four years....
>
> "The greatest difficulties in dealing with the problem of deficit spending and of management of public debt seem to me to be problems of correct timing. Obviously, public debt must not be piled up to a point where unsound inflationary results destroy

the very purpose of the policy I have in mind--which is to manage fiscal and monetary policy, despite the definite limitations of the effects of such policy, so that it has a stabilizing and moderating influence to offset distortions in the functioning of the general economy--distortions and violent swings between booms and depressions that impoverish and demoralize and threaten the very existence of the whole system.

"Consider for a moment the importance of proper timing: Even though we had no public debt whatever, deficit-spending could be very inflationary if it came at a time when our economic machine was already working at full capacity. Merely to increase government spending, if offset by increased taxation derived from increased income, would not be inflationary. It is the spending above receipts that brings about an increase both in the supply and velocity of money. Conversely, deficit-spending at a time when private spending is declining, tends to compensate for this by increasing buying power."

I hope the above comments will prove useful to you.

Very truly yours,

M. S. Eccles.

EJS:mf