

OFFICE OF PRICE ADMINISTRATION

WASHINGTON 25, D. C.

OFFICE OF THE ADMINISTRATOR

*March 4/46*  
~~February 23, 1946~~

The Honorable  
Marriner Eccles, Chairman  
Federal Reserve System  
Washington, D. C.

Dear Marriner:

A year and a half ago I agreed to write a popular short book for Simon and Schuster on our economic opportunities and how we could fulfill them. On a great many occasions since then I have regretted the commitment. It has been a long slow tedious job and most of the work has been done on weekends and at night.

I am sending you a galley proof in the hope that you will have a chance to look it over. Obviously, the book is for popular consumption and is open to the charge of considerable oversimplification. Nevertheless, it seemed to me important to get some of the basic issues established and particularly to develop the concept of the tremendous potentialities that lie ahead of us unless we stub our toe.

Because Simon and Schuster are so anxious to get the book out before the middle of April, I have agreed to get the proofs back to them in final form by March ~~15th~~ 18th.

If you have an opportunity to read it over in the next week or ten days, and send me your very frank comments and criticisms, I would appreciate it.

With my best regards.

Sincerely,

*Chester Bowles*  
Chester Bowles

*p14  
p16  
p19  
p21*

TO - Mr. Bowles

FROM Mr. Eccles

REMARKS: March 14, 1946.

In accordance with the telephone conversation I just had with you, I am returning herewith the manuscript, together with comments made to me by Mr. Thurston, my assistant.

Delivered to Mr. Bowles  
by messenger - 12:05 P.M. 3/14/46

CHAIRMAN'S OFFICE

March 13, 1946.

Chairman Eccles

Mr. Thurston

Herewith the manuscript of Chester Bowles' book. This is absolutely first-rate, in my opinion, primarily because it is written in popular, understandable style. Stuart Chase is about the only other writer who has this gift of vivid simplification without straying too far from scientific or economic accuracy.

As you remarked, it might be well to add to the foreword -- just to keep the meticulous professionals from carping, in case anything will -- that this is not intended as a text book but is meant for the layman who may be interested in one man's opinion on the many admittedly controversial and complex subjects with which this deals.

I have ventured to write in a series of queries, comments or suggestions as I went along, though I have the feeling that in the short time available I have not begun to do justice to any editorial effort. I have, however, tried to note one or two points in particular.

For example, on page 14 there is a reference to workers saving some of their income and putting it in the bank "which in turn will loan it to others, etc." The reference to the bank should come out, I think, because as we have so often said lately, the public gets the impression, wholly contrary to the facts, that the money which depositors put in commercial banks is the same money that is loaned out by the banks. I am not suggesting that it be explained in this text how the commercial banking system creates and extinguishes money, i.e., bank credit based on reserves. I did not note, in going through, any other misleading statement about it but perhaps the author will have it in mind in final revision.

On page 16, while it is probably true that the Reserve System was acclaimed in some quarters as marking the end of depressions, I would rather indicate that such acclamation was naive to say the least. So I suggest saying that it was acclaimed as if it alone could.

On page 21, I would like to see inserted, though it is not essential, a reference to the fact that only the Government, representing all of the people, could assume the risks and extend the credit that private business and individuals are not in a position to assume or extend. Hoover did not understand this.

On page 23, I do think it important not to exaggerate deposit insurance. I would, therefore, say that our banking system began to recover, aided by constructive legislation and fortified by deposit insurance.

Somewhere in the chapter, "Why We Bog Down," I think it would be valuable to point out that throughout our history it was an axiom of economics that as savings accumulated they flowed more or less automatically into new production which in turn gave employment. The most significant fact, I think, of the 20's was that this axiom proved no longer valid. I think that is what did so much to confuse and confound the orthodox economist. This phenomenon has been stated by various people in various ways. I do not know of anybody who has put it more succinctly as did (of all people!) Harold G. Moulton in the volume entitled "The Formation of Capital", issued by the Brookings Institution in 1935. Certainly no orthodox source was franker about it. It is all summed up in the conclusions on pages 159 and 160 of that volume, and for convenience I am attaching these quotations which, if used, should of course be credited. I think it would be better to re-write them.

I have no other particular suggestions excepting that on page 47 there is another reference to savings going into the bank and the implication that they are loaned out "to pay for new housing, new factories, new equipment, etc." The discussion of idle savings that follows is okay.

In looking for things that seem to need correction or amplification one always overlooks the virtues of a text. So I want to emphasize again that I think this will be instructive and useful for the lay public. I also happen to be in substantial agreement with it.

If I were writing the chapter, "Live and Help Live," on page 70, however, I would want to make clear that foreign trade is not the answer to an unemployment problem in this country. To put it another way, a radio commentator the other night said in effect that we cannot have prosperity without foreign trade. I would say, as I think you would, that just the opposite is true. I would want to point out that foreign trade is a two-way street, etc., and that it should not and cannot indefinitely be sustained on a basis of loans or taking gold. I would even like to put in a plug for considering stockpiling raw materials which we might be willing to take from abroad. Neither major political party is likely to reduce tariffs materially as a means of admitting foreign goods and providing dollars with which to buy our goods. Anyway, to do that would displace our labor. If we have high levels of production and employment, travel remittances, purchase of luxury goods, etc., will provide dollars for buying some of our surpluses.

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Attachment

(From "The Formation of Capital", by Harold G. Moulton)

"The rapid growth of savings as compared with consumption in the decade of the twenties resulted in a supply of investment money quite out of proportion to the volume of securities being floated for purposes of expanding plant and equipment, while at the same time the flow of funds through consumptive channels was inadequate to absorb -- at the prices at which goods were offered for sale -- the potential output of our existing productive capacity. The excess savings which entered the investment market served to inflate the prices of securities and to produce financial instability. A larger relative flow of funds through consumptive channels would have led not only to a larger utilization of existing productive capacity, but also to a more rapid growth of plant and equipment.

"The phenomenon of an excessive supply of funds in the investment markets had never been anticipated. Not only had it been assumed that all savings would automatically be transformed into capital equipment, but it seemed impossible to conceive of a situation in which savings might become redundant. Such a point of view is natural enough in the light of our historical evolution.

"In the early history of this country the volume of funds available for the purposes of capitalistic enterprise was persistently inadequate. Business men often found it difficult to obtain the liquid capital, at any price, with which to expand the size of their business undertakings or to exploit new fields of enterprise. In colonial days, for example, the shortage of funds was a continual source of difficulty and a primary cause of irritation with the mother country, which opposed the issuance of bills of credit by colonial governments. Until well into the nineteenth century the volume of savings rendered available through investment channels for the needs of business enterprisers was negligible in amount. The philosophy which emphasized the fundamental importance of increased savings was a realistic one for that age.

"In the period since the Civil War, however, two factors have combined to produce a profound change in this situation. The first has been the growth of a well-to-do middle class, with funds available for investment. The second has been the development of the commercial banking system, making possible an expansion of credit to business enterprise for both fixed and working capital purposes. It is these developments which account for the emergence of the United States as a great financial power. Not only do we now have an abundance of funds with which to finance American enterprise, but we are also able to extend credits to the world at large. In this development we have followed the road which England travelled at an earlier date.

"At the present stage in the economic evolution of the United States, the problem of balance between consumption and saving is thus essentially different from what it was in earlier times. Instead of a scarcity of funds for the needs of business enterprise, there tends to be an excessive supply of available investment money, which is productive not of new capital goods but of financial maladjustments. The primary need at this stage in our economic history is a larger flow of funds through consumptive channels rather than more abundant savings."



SIMON AND SCHUSTER, INC.

*Publishers*

ROCKEFELLER CENTER • 1230 SIXTH AVENUE • NEW YORK 20

March 15th, 1946

Dear Marriner,

I understand from Chet Bowles that you have read the first galleys of his book, TOMORROW WITHOUT FEAR. As you know, we are publishing it sometime late in April. If you liked the book, I wonder if you would be good enough to give us a short comment, which we might print on the cover of the first edition, along with three or four others from highly responsible people. We should also like to use it for advertising.

Chet feels that your opinion is very important, and of course we do too. If you could see your way clear to do this, we would consider it a great favor.

Best personal regards,

Sincerely,

Fred Smith

FSmith/bt

The Honorable Marriner S. Eccles  
Chairman Board of Governors  
Federal Reserve System  
Federal Reserve Building  
Washington, D. C.

March 20, 1946.

Mr. Fred Smith,  
Simon and Schuster, Inc.,  
1230 Sixth Avenue,  
New York 20, New York.

Dear Fred:

If any word of mine will help to give wider circulation to Chester Bowles' book, I certainly want to say that word. As you suggested in your note to me of March 15, I am glad to offer a short comment for such use, if any, as you might care to make of it. I would be inclined to say the following:

"The great virtue of this book is that it is written in language the layman can understand. Everyone who is sufficiently interested in the social and economic problems of our times to want to understand and do something about them should read this informed and enlightening book."

Sincerely yours,

M. S. Eccles,  
Chairman.

ET:b

## OFFICE OF ECONOMIC STABILIZATION

WASHINGTON, D. C.



DIRECTOR

April 29, 1946

Mr. Elliott Thurston,  
Assistant to the Chairman  
Board of Governors of the  
Federal Reserve System

Dear Mr. Thurston:

Several weeks ago Marriner Eccles passed along to me your reactions to the book I've written, together with your very helpful suggestions for improving it. I have finally made a good many minor changes and the book is ready for the press. Whatever success I have with it will certainly reflect the help that constructive criticism like yours has given me.

I tried to profit by your good ideas on the relationship of foreign trade to our prosperity. I didn't mean to give the impression that it was a panacea.

I was very interested to read the excerpt from Harold Moulton's ideas on the flow of capital and savings. I tried to reword the chapter on "Why We Bogged Down" to cover your suggestion. It may be I didn't go far enough.

Frankly, if I had been able to find the time, there was a great deal more reorganization and rewriting that I would like to have done. But I suppose no author was ever completely satisfied with his efforts, particularly in this period of vacuum when the book is in that final slow going-to-press state.

Many thanks again for taking time to read the galleys so thoroughly and to suggest so many valid points.

Sincerely,

Chester Bowles,  
Director

cc: Marriner Eccles ✓

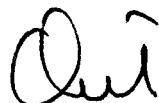
CHESTER BOWLES  
MCLEAN, VIRGINIA

Dear Marriner:

My book is finally off the press, and I am sending a copy to your office.

I certainly appreciate the help you gave me on it. The final result isn't everything I hoped for, but I do think it is a bit smoother than when you first saw it.

Best regards,

A handwritten signature in black ink, appearing to read "Chester Bowles".