

August 12, 1948.

Mr. Don T. Kyle,  
State Tuberculosis Sanatorium,  
Talihina, Oklahoma.

Dear Mr. Kyle:

The frankness and sincerity of your letter of July 31 make me wish that I could answer your difficult question with certainty. You ask, in effect, how any Administration or, for that matter, the Government itself could survive if the national income were cut, say, to about one-third of its present volume.

I would be inclined to put it in somewhat different terms. I would say that if a deflation of such magnitude were permitted to develop with corresponding unemployment, we could well have a political revolution. However much government sometimes bungles, I cannot believe it would be so senseless as to let any such catastrophe occur. Or to put it another way, I would far rather have a dollar inflated, let us say, by 25 per cent or even with its purchasing power cut in half than to have wholesale unemployment and all the human misery that would entail. As a nation we have managed things poorly in permitting as much inflation as has already occurred. I cannot bring myself to believe that we would be so stupid as to tolerate a ruinous deflation.

Large as the debt is today it is not, by any means, unsupportable and would not be even if national income were considerably lower. It is, I think, all a question of degree but we have not had the extreme inflation such, for instance, as we see today in China. And I cannot believe we would have any such extreme deflation as to jeopardize the Government credit. Repudiation of the debt is inconceivable. Essentially the management of even so great a national debt as we have today is not difficult. It is simply a question of collecting taxes from all of our people, or most of them at any rate, to pay the costs of Government including interest on the public debt. It would be far better, of course, if in times like these we collected enough to have a substantial surplus with which to pay off public debt.

Probably I used too strong a word when I said we were headed for a "bust" and this got into the headlines and news reports, though I explained later in my testimony that there was no reason why we should have a disastrous deflation. I think we are headed for some

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measure of unemployment in order to bring about a readjustment of the unbalanced relationships within the economy, but there are a good many things the Government can do to moderate a decline and prevent any financial debacle. Fortunately, the Congress has now specifically recognized in the Employment Act that it is a primary responsibility of Government to do all that it can -- and it can do a great deal -- to stabilize the economy at high levels of employment and production.

Sincerely yours,

M. S. Eccles.

ET:b  
