

GEORGE RICHMOND WALKER
120 BOYLSTON STREET
BOSTON, MASS.

December 7th, 1938

Mr. Elliott Thurston
Federal Reserve System
Washington, D.C.

Dear Mr. Thurston:

Thanks for your very kind letter of the 2nd. Newell Garfield spoke of you last summer and I am sorry that I could not have come down to the island and had a chat with you.

I did not expect, of course, to persuade you or Mr. Eccles to accept all at once so drastic a measure as I recommended. Reforms of that kind usually come about only with the pressure of events. My fear, however, is that our political democracy will be destroyed before our economy is reformed.

For every dollar that the government has put to work another dollar has quit work, so that there are more dollars idle this year than ever before. This is revealed by the rate of turnover of demand deposits. With all its good works the New Deal has made no progress whatever in solving the problem of investment.

I read Mr. Eccles speech with great care. In his last paragraph he says that there is no reason, except our own failure to understand its nature, why our capitalistic democracy cannot be made to work well in the future.

In order to understand we must define our social objectives and then know the conditions upon which they can be attained. If our purpose is to preserve the right of capitalists to invest at a 'satisfactory' rate of return, irregardless of how much they have to invest, then we must reduce costs by forcing down wages, and we must allow the depreciation and obsolescence of existing excess capacity. Since 1930 there has already been a shrinkage in industrial equipment of about 6 billion dollars. This will continue.

If our purpose is to preserve the right of capitalists to refuse to invest, then we must expect a reduced demand, idle factories, bankruptcies, unemployment, and continued relief.

If our purpose is to preserve private enterprise and democracy then we must deny the right to hoard money, for the right to hoard is the right to sabotage business, to obstruct the processes of trade, to cause and prolong depressions, and to mock our democratic ideals of freedom, opportunity, private initiative, and progress.

We must distinguish between the right to produce goods at a profit and the right to exact interest from industry. Profit is the reward for useful production; interest is the tribute that industry must pay to those who have accumulated the nation's medium of exchange. And if the tribute is not paid the penalty is depression.

I am afraid that the New Deal, because it will not make a direct attack upon the problem of hoarding, must fail in its main objective of restoring prosperity. The truth is that the right to hoard is still valued above the right to work. The one is essential to capitalism, the other to private enterprise and democracy. And since the two rights are fundamentally inconsistent with each other a choice must someday be made between them. I only hope that it will not be postponed too long.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Frank M. Walker", with a long horizontal flourish extending to the right.