File

Summary of informal address given before the
Economic Club of Detroit, Monday noon, February 20, 1939,
at the Book-Cadillac Hotel, by Marriner S. Eccles:

Speaking before the Economic Club of Detroit, on the subject, "What Should Be the Government's Objectives in Fiscal and Monetary Policies?", Mr. Eccles stressed the importance of encouraging a maximum of private investment in productive enterprise that will in turn utilize idle man power, idle resources, and idle capital and thus result in higher national income. Whatever deterrents exist, he said, that can be removed, should be lifted, including any restrictive policies whether on the part of Government, private capital, or labor.

While concentrating attention upon the removal of such restrictions so as to afford the greatest possible incentive for private activity, he said, it would be a mistake to withdraw the Government's contribution to community buying power, since our experience in the past decade has proved that Government spending is not a deterrent but a stimulant to private enterprise. Mr. Eccles said he was fully aware of some of the deterrents in the picture today, but that Government spending is not one of them. He stated further that Government expenditure is justified as a means of utilizing idle man power, idle resources, and idle money only when private enterprise has been given every legitimate encouragement but nevertheless is unable to put these factors of production to work in the creation of new wealth.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The only real limitation upon such a policy, he said, is available man power, since in this country material resources and money are available in abundance. It is widely claimed that this policy will lead to inflation, and this is a matter of proper concern and our means to control it should be improved. However, a general inflation, said Mr. Eccles, would be evidenced by over-employment and a general rise in costs and we are far from such a development.

Essentially, the fundamental domestic problem, he said, is the maintenance of a balanced relationship between the accumulation of funds seeking new investment on the one hand, and effective consumer purchasing power on the other; only with such a balance, coupled with an adequate flow of money through the economy, can we attain a continuous and increasing production of real wealth. The maintenance of effective consumer purchasing power, he said, tends not only to sustain existing investment but also to provide profitable outlets for new investment.

In this connection, he cited the report made to shareholders of the Midland Bank Limited, the largest bank in England, on January 26, 1939, by Sir Reginald McKenna, Chairman of the Bank, and a former Chancellor of the Exchequer, who said:

> "If, as in America, savings are left idle through fear of loss and not ventured freely in new enterprise, trade depression sets in and unemployment increases.... The problem of the proper use to be made of the nation's savings presents at the moment no difficulties for us; it is solved by the fact that the Government has come into the market as a borrower on a large scale."

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Discussing the question of whether added expenditures for armament should be met by further taxation or by incurring a temporary deficit, Mr. McKenna stated:

> "The choice lies between additional taxation, borrowing or something of each. If labor today were in full employment I should, for my part, unhesitatingly lay the emphasis on taxation. But when there is very considerable unemployment, questions arise which may lead to a different conclusion.... The additional expenditure by the Government ought, if possible, to be so directed as to bring into productive activity men and women who are now out of employment. Taxation will not help in this respect; borrowing, on the other hand, under existing conditions will stimulate employment, and as the demand for labor grows industrialists will be forced ultimately to draw from the pool of unemployed. The limit to this policy is obviously reached when all labor employable at a profit at the current rate of wages is fully engaged, but we are a long way from that condition at the present time."

With regard to the danger of inflation, Mr. McKenna stated:

> "If it should become clear that rearmament is causing true inflation, as indicated by over-employment and an all-around rise in costs, it will, I think, be undeniable that restrictive measures have become a matter of urgency. But I see no sign of a near approach to that condition."

American bankers and industrialists might well consider this approach to Government fiscal and monetary policy, Mr. Eccles said, for while conditions are not exactly analagous, the underlying considerations are substantially the same in each country, and there is even more reason for pursuing this general policy in the United States because recovery here is not yet as far advanced as in Great Britain and we do not have the deterrents of the high tax levels and Government debt load which have prevailed in Great Britain since the last war.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis