

HARMON V. SWART  
ASSOCIATES, INC.

INSURANCE - BONDING - FINANCE

84 WILLIAM STREET  
NEW YORK, N. Y.  
WHITEHALL 4-3146

May 10, 1940

Mr. Marriner S. Eccles, Chairman  
Federal Reserve Board  
Washington, D. C.

Dear Mr. Eccles:

In your very interesting talk last night at the Economic Club regarding the survival of capitalism, you said, "The one thing which capitalism cannot afford, is unemployment."

A study of "capitalism" shows that it cannot provide "employment." The normal functioning of the capitalistic mechanism is deflationary in character. In other words, this mechanism automatically produces unemployment and tends to constantly increase it. The reason for this net result of the operation of the capitalistic mechanism is that it cannot produce buyers for the goods which it offers for sale. The inevitable result of the operation of the capitalistic mechanism is to produce more goods than buyers -- thus resulting in a surplus which tends to increase. The only remedy within the capitalistic mechanism is to lower the rate of production. This in turn, creates unemployment. Not only does it create unemployment, but it creates unemployment at an increasing rate.

The only remedy brought forward thus far is subsidy from outside the capitalistic mechanism itself -- increase of debt, both public and private with no provision for liquidating it on a legitimate basis.

The capitalistic mechanism is our system for producing and consuming the goods and services available from our resources, technique, industry, etc. The effectiveness of our system is best manifested in the increase in the rate of growth per capita of our production. The best index that I happen to know of for per capita production is that of the Cleveland Trust Company.

I have before me a chart of this index from 1875 down to date. Analysis of this chart produces conclusions that are startling, if not utterly astounding. The rate of per capita growth from 1875 to 1915, is roughly a straight line average on this chart, and shows a healthy growth over this period.

May 10, 1940

Mr. Marriner S. Eccles

However, from 1915 to date, the average rate of per capita production does not show a growth. Rather the average is a decline in the rate of per capita production.

You say "capitalism cannot afford unemployment." In slang, Eccles, you certainly said a mouthful. Unemployment is the result of lack of consumption. Consumption lags because of lack of buying power in the hands of consumers.

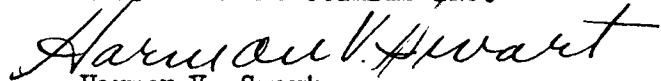
Now, "buying power" is simply the flow of money to consumers. The responsibility for this flow of buying power must be borne by "business." At the same time it is mathematically impossible for business to maintain a flow of buying power sufficient to move the goods which are produced for sale or which result from the flow of buying power.

Therefore, since it is the responsibility of "business" to produce its own buyers, and it is mathematically impossible for business to do this, is it not perfectly proper and the only intelligent thing to do, to examine critically the mechanism -- money.

Instead of considering the nation's problem as "unemployment," or "private investment," more efficient productive operations," pump priming," "volume of exports," new frontiers," etc., should we not divert our attention to the problem of business inefficiency in failing to provide its own buyers -- for actually, business is on the dole. Business would collapse were it not for the dole passed out by the Government, and which reaches business, thus sustaining it as purchasing power in the hands of the mass of the people to whom business has no way of delivering sufficient purchasing power.

Respectfully yours

HARMON V. SWART ASSOCIATES INC.



Harmon V. Swart  
President

HVS:11

May 17, 1940.

Mr. Harmon V. Swart,  
84 William Street,  
New York City.

Dear Mr. Swart:

This is to thank you for your letter of May 10 with regard to my talk before The Economic Club of New York.

I was interested in your comments and in your remark that, in effect, business is on the dole and would collapse but for government help. The problem you have in mind would, I think, be met by the sort of government program which I outlined in a general way in my speech, a copy of which I enclose. This was prepared and delivered, of course, before we knew of the recent developments in Europe and of the additional defense program in this country. However, the basic principles are in no way affected by these circumstances.

Sincerely yours,

M. S. Eccles.  
Chairman.

enclosure

ET:b

MR. THURSTON:

Mr. Eccles wanted you to handle this.

LC

3.7.  
**HARMON V. SWART**  
ASSOCIATES, INC.

INSURANCE - BONDING - FINANCE

84 WILLIAM STREET  
NEW YORK, N.Y.  
WHITEHALL 4-3146

May 23, 1940

Mr. Marriner S. Eccles, Chairman  
Federal Reserve Board  
Washington, D. C.

Dear Mr. Eccles:

It was very kind of you to include with your letter of the 17th., the copy of your talk before the Economic Club of New York. The press reports were entirely inadequate. I have read your talk very carefully and have been greatly interested in doing so. It prompts me to write to you again and wish there might be an opportunity for personal discussion.

For instance, your subject "Unemployment -- What Shall We Do About It." Suppose instead, your subject had been "Lack of Buyers -- What Shall We Do About It" -- or, "Buyers For Business -- How to Create Them."

You develop various ideas in your talk. You dwell upon the need for full employment for instance in order that the people may have at least that much of a reason for remaining loyal to our institutions and our economic system. (Page 11) Okeh.

On page 10 you say "too much idle money is piling up" -- how much money should "pile" up? This is not an idle question -- it is very pertinent.

Again on page 10 you say "too little is going into the hands of potential consumers." How much should go into their hands? Neither is this an idle question -- it actually is vital.

On page 12 you say "Government should not be a competitor with private business." Neither should it be a supporter of private business. However, to the extent that government "provides public works in times of slack business" and borrows for that purpose, it actually is supporting private business with buyers.

Is "unemployment" really itself the fundamental problem? Is it not rather simply the symbol or the manifestation of a problem which lies a little deeper. Is not the basic problem that of providing buyers for business. Business will maintain only such level of employment as will satisfy the market. Within the framework of our system, it is economic suicide to go beyond that point.

May 23, 1940

Mr. Marriner S. Eooles, Chairman

On page 14 you speak of "the principle of assurance of employment." Would it not be more appropriate to refer to the principle as "the assurance of buyers." If business were assured of buyers, the unemployment problem would be solved automatically.

Again on page 14 you speak of "a large volume of idle resources which are not being called into operation because of a lack of demand for their products due to the lack of purchasing power by the consumers. Give them jobs and they will consume -- let them consume and the demand for goods would be sufficient to keep the economic plant in full operation." This is a statement which sounds fine. It will be accepted by 99 men out of 100, but is it correct -- is it really true? I think not.

"Give them jobs and they will consume." True, they will consume to the extent of using up the goods which their wages will pay for. However, it is impossible for them to consume as much as they produce. The employer must operate at a profit. This means that so far as the employees are concerned, there must be produced more than can be purchased by the wages received by the people who work.

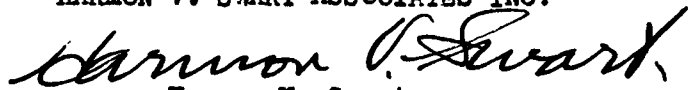
Thus you see, re-employment or full employment in no way solves the problem. The startling fact stands out that the greater the employment, the worse the result -- because of the necessity for the employers making a profit.

This brings us right down to facing the kernel of the problem. That is, how to use up the goods which are produced. We have a man made mechanism which has been designed to achieve that particular objective. This mechanism we call money -- medium of exchange. Its function is to facilitate the exchange and consumption of goods (and destruction.) Only the destruction of goods through consumption or otherwise, permits our further production which means employment.

On page 16 you say "the most direct way to approach the problem is to recognize that we must provide jobs for all those who are willing and able to work." Again, is this true? What does business care whether everybody has jobs and is working or not, so long as buyers can be found for its output. Unemployment per se is not the problem. The problem is the distribution of money. May I be permitted to state that it behooves us for the solution of our difficulties to look into the subject of money. This is a mechanism which has been designed for a particular job. As such, it fails to measure up. May there not be defects in what we use for money? It seems self evident that there are specific inherent defects therein and no amount of talk by anybody anywhere is going to remedy conditions as long as this is ignored. Let us at least attempt to analyze fully and correctly the real problem.

Sincerely yours

HARMON V. SWART ASSOCIATES INC.



Harmon V. Swart  
President

HVS:11

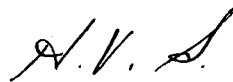
May 23, 1940

Mr. Marriner S. Eccles, Chairman

P. S. On my next trip to Washington, will it be possible to arrange a personal interview with you to discuss this particular talk -- not for contention, but enlightenment.

As I read this letter over after it is typed, Mr. Eccles, it sounds like a potpourri. The burden of the discussion is that even if we could jump into a state of full employment, the "problem" would not be solved. The net result would be to pile up idle money that much faster -- not only through the increased aggregate profit that would be demanded by business, this would be augmented by a very substantial increase in individual savings. More idle dollars with no place to go.

Let's see if we can't get together for an informal discussion -- classify the "problem" as the "dilemma of thrift" and endeavor to analyze it fully on that basis.



HVS:11

June 4, 1940.

Mr. Harmon V. Swart,  
84 William Street,  
New York City.

Dear Mr. Swart:

This is to acknowledge receipt of  
your letter of May 23 addressed to Chairman  
Eccles, who is temporarily out of the city at-  
tending a bankers' convention.

May I suggest that when you are in  
Washington, you communicate with his office in  
regard to the personal interview that you have  
in mind.

Sincerely yours,

Elliott Thurston,  
Special Assistant  
to the Chairman.

ET:b