

February 20, 1942.

The Editor,
The Paterson Call,
Paterson, New Jersey.

Dear Sir:

The editorial entitled "Some Financial Experts Have Peculiar Ideas", appearing in your issue of February 14, is apparently based on a total misconception of my recent address to the United States Conference of Mayors.

You say that my recommendations to the Mayors are "fantastic", but if that is so, then the same criticism applies to Governor Stassen of Minnesota, Chairman of the Governors' Conference executive committee, and to the Board of Managers of the Council of State Governments as well as to the executive committee of the Governors' Conference, for all of these officials adopted a statement recommending to all State and local governments the identical policies which I suggested to the Mayors. Governor Stassen recently announced that his State, conforming to the recommendations of the Governors' Conference committee, has set aside \$4,000,000 in a fund for post-war public works and expects to raise the total to at least \$15,000,000 by June 30, 1943. The States of California and Virginia are among others accumulating reserves or accelerating debt payments so as to counteract inflationary pressure now and deflationary pressure later. For your information, I enclose an excerpt from the statement on "State and Local Fiscal Policies Relative to Defense", as prepared by the Tax Committee of the Council of State Governments and approved by the Board of Managers of the Council and the executive committee of the Governors' Conference. The full text was published in Municipal Finance News of the Municipal Finance Officers' Association of January 1, 1942.

Your editorial implies that I advocated that local governments continue to spend money, whereas I advocated exactly the opposite. Thus, on page 5 of my address to the Mayors, a copy of which I enclose, I stated, "Unfortunately, under boom conditions brought about by war expenditures, the Federal Government cannot contract but must continue to expand its budget -- and this makes all the more imperative the need for contracting so far as possible all other budgets, both public and private." Again on the same page, at risk of undue repetition, I said, "In war times, as we have seen, the Federal budget cannot be balanced, which makes it all the more necessary that all other public budgets be balanced as one offset against the inflationary effects of Federal expenditures."

Again on page 13 I said:

"As you all know, the enormous military demands for materials and man power have made it necessary for the President to call upon the public to reduce its expenditures and thus to release resources urgently needed for war purposes. The same considerations should lead government at every level, Federal, State and local, to reduce or postpone all expenditures that are not essential for the war effort and maintenance of civilian morale. Public works, all plans for capital improvements, should be deferred so far as possible until after the war, when such expenditures can be timed to stimulate production and maintain employment."

After pointing out that some communities experiencing rapid expansion because of defense activities and the influx of population could not curtail because of the necessity for extending police and fire protection and other essential public services, I continued:

"Otherwise, it is urgently necessary that you practice every economy consistent with the maintenance of essential services. This does not mean that you should reduce local taxation, however plausible that may seem at first. For to the extent that you reduce local taxation, you negate what the Federal Government is seeking to accomplish in controlling inflation through increasing Federal taxation. The taxpayer's contribution to the war effort is made by reducing his personal expenditures for goods and services, thus aiding in the shift of economic resources to military purposes. To the extent that the Federal tax pressure upon the taxpayer is offset by reduction of State and local taxes, the economic purpose of the Federal tax program is defeated. Accordingly, instead of reducing local taxes, you should maintain them, thereby enabling you to pay off your public debts. If you have no such obligations, then invest the funds in Government securities, thus helping to finance the war. This is the time to pay off or reduce local public debts as well as private debts, thereby helping to offset the inflationary factors arising from expansion of the Federal debt, while at the same time building up a credit reserve for use in the post-war era. Repayment of your securities would make available to those who hold them funds which they could invest in Government securities. Indeed, you have a rare opportunity for a major achievement in financial statesmanship. I hope that opportunity will be grasped."

The Editor, The Paterson Call - (3)

February 20, 1942

Since your editorial was apparently based on incorrect information, I wished to give you the facts in case you had occasion to recur to this subject in the future.

Very truly yours,

M. S. Eccles,
Chairman.

Enclosures 2



ET:b

This article is protected by copyright and has been removed.

The citation for the original is:

Paterson Call (NJ), "Some Financial Experts Have Peculiar Ideas," February 14, 1942.