March 14, 1946.

Mr. Leigh E. Ore,
Director, Public Relations,
Interdepartmental War
Savings Bond Committee,
Washington 25, D. C.

Dear Mr. Ore:

Mr. Bethea referred to me your letter of March 6 and I discussed the subject of it with Mr. Eccles after talking with you by telephone. Mr. Eccles said that he was willing to make a brief statement on the desirability at this time of continuing this means of absorbing excessive purchasing power relative to the supply of goods, but would not want to have it appear that he was committed to this idea under opposite economic conditions when production and employment can only be kept up by large increases in purchasing power. If individuals save rather than spend their current incomes at such a time, the general economic effect would not, of course, be desirable.

In the light of this view, I have prepared and the Chairman has agreed to the enclosed statement. I hope you will think it appropriate, but if not I know you will not hesitate to lay it aside.

Sincerely yours,

Elliott Thurston,
Assistant to the Chairman.

Enclosure

ET:b

During the war and its aftermath, while inflationary pressures steadily increased, the payroll savings plan has been an effective means of helping to draw the savings of the public into an unquestionably good investment and thus to keep these funds from bidding up the prices of scarce goods. Moreover, to the extent that Government financing is done by borrowing from the general public -- and the payroll savings plan is one of the most convenient ways of accomplishing this objective -- or by taxation, the highly inflationary effects of financing through further creation of bank credit are avoided.

The strong inflationary pressures confronting the country at this time must be held in check by continuance of price controls reinforced by other protective measures, including the payroll savings program. These pressures on prices arise from the excess of potential purchasing power relative to available goods and services. Price controls and other safeguards, however, necessarily deal with the effects, not with the causes, of inflation.

The basic remedy for this situation is, on the one hand, to stop creating further supplies of money and if possible to reduce the present excessive amount of bank credit and, on the other hand, to reach without further delays high levels of production so that a reasonable balance may be brought about as soon as possible between the factors of demand and supply. Until such a balance is achieved, investment in savings bonds by the public can make an important contribution to the success of the Government's battle against rising costs of living.

At such time in the future as the economic situation changes and supply exceeds demand, different policies would be appropriate. Then it may be desirable for the general public to save much less and to spend much more of their current incomes because these expenditures would help to sustain production and employment.

At this stage, however, when such expenditures would be inflationary, the payroll savings program is in the interest of the individual investor and of the Nation as a whole.

ET:b
3/14/46

During the war and its aftermath, while inflationary pressures steadily increased, the payroll savings plan has been an effective means of helping to draw the savings of the public into an unquestionably good investment and thus to keep these funds from bidding up the prices of scarce goods. Moreover, to the extent that Government financing is done by borrowing from the general public -- and the payroll savings plan is one of the most convenient ways of accomplishing this objective -- or by taxation, the highly inflationary effects of financing through further creation of bank credit are avoided.

The strong inflationary pressures confronting the country at this time must be held in check by continuance of price controls reinforced by other protective measures, including the payroll savings program. These pressures on prices arise from the excess of potential purchasing power relative to available goods and services. Price controls and other safeguards, however, necessarily deal with the effects, not with the causes, of inflation.

The basic remedy for this situation is, on the one hand, to stop creating further supplies of money and if possible to reduce the present excessive amount of bank credit and, on the other hand, to reach without further delays high levels of production so that a reasonable balance may be brought about as soon as possible between the factors of demand and supply. Until such a balance is achieved, investment in savings bonds by the public can make an important contribution to the success of the Government's battle against rising costs of living.

At such time in the future as the economic situation changes and supply exceeds demand, different policies would be appropriate. Then it may be desirable for the general public to save much less and to spend much more of their current incomes because these expenditures would help to sustain production and employment.

At this stage, however, when such expenditures would be inflationary, the payroll savings program is in the interest of the individual investor and of the Nation as a whole.

The above is a statement enclosed in a letter to Mr. Leigh E. Ore under date of March 14, 1946.