

Form F. R. 511

TO Mr. Thomas

FROM Chairman Eccles

REMARKS:

9/29/47

Miss. Bureau

Would you please draft a reply for my signature.

M.S.E.

*Approved with D.S.
suggested over phone
and release to
press. M.S.E.*

CHAIRMAN'S OFFICE

Released to press 10/1/47 -





THE CIVILIAN ARM OF THE NAVY

NAVY LEAGUE OF THE UNITED STATES

(INCORPORATED 1903)

THE MILLS BUILDING

WASHINGTON 6. D. C.

September 26, 1947

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

Dear Mr. Eccles:

I wish to take friendly issue with the remarks that were attributed to you in this morning's Washington Post in which you are quoted as saying that economic collapse through inflation faces us if not checked -- and that you personally urge the reduction of our national expenditures for national defense in order to prevent such a catastrophe.

I have just completed a nationwide trip in behalf of the Navy League and have visited with and interviewed thousands of representative citizens throughout the country. I have talked with them about many things including our country's economy and -- most important -- the need for an intelligent evaluation of the menace which faces our country due to well known attitudes of certain foreign governments and widely publicized exposes of subversive groups operating within our own country. The feeling has been quite unanimous in that we must bring our armed forces

to the point where the country is truly protected and that further reduction along these lines would not only be foolhardy but might well be crucial. It is true, that our economy needs careful and constant expert supervision. I feel however that the causes that underlie inflation are not solely those created by the expenses of our military services but are, very largely, the results of mistaken efforts of the government itself.

The maintenance of our economy is part of the function which we as free people recognize as of primary importance. Sound fiscal planning is needed and I personally believe that the sometimes unwise extension of the function of government in many directions is very largely the cause of the troubles which you mention.

Would it not be wise to establish sound fiscal policies and a free economy at this time rather than to suggest interference with the work of our armed services? A nation which is weak in the military sense is a direct invitation to the type of attack and conquest which has been so horribly exemplified in our most recent world war.

I sincerely urge you to reconsider your approach to these important and timely questions but I am glad that you bring them out into the open, ~~however~~, because I am convinced that the American people have the intelligence and integrity to face and solve such basic issues without exposing our national security to the danger inherent with military weakness.

Very truly yours,



Frank A. Hecht,
President.

P.S. I am releasing a copy of this letter to the press.

F.A.H.

September 30, 1947.

Mr. Frank A. Hecht, President,
The Civilian Arm of the Navy,
Navy League of the United States,
The Mills Building,
Washington 6, D. C.

Dear Mr. Hecht:

Your letter of September 26 takes issue with remarks attributed to me in the Washington Post regarding the bearing of expenditures for national defense upon the present inflationary situation. I am sending you a copy of my prepared statement, which was released to the press; the complete statement will make it possible for you to judge my remarks in their proper setting. I am somewhat surprised that your letter, which was based on an incomplete press report of my speech, was given out for publication before you read my complete statement.

You will note that I discussed the basic causes of inflation growing out of Governmental policy of war finance. I pointed out that inflation is certain to result from war unless controls are maintained until supply and demand are more nearly in balance. In discussing the necessity of continued large expenditures by the Government, especially for foreign aid, I indicated that it can not be denied or ignored that they are "a heavy current burden upon our taxpayers or a strong inflationary force on our economy, but so are our even larger military expenditures, which are considered by many as necessary for maintaining peace."

Under the circumstances any large Government expenditures are inflationary or in any event reduce the ability of the Government to follow an anti-inflationary policy without further increases in taxes. With military expenditures comprising the largest single item in the budget, it must be recognized that they are one of the most important factors that contribute to inflation. There are certainly many others. What I endeavored to point out in my speech was that the public should be fully aware of the costs and risks involved in the various policies being followed.

We are faced with a choice between unattractive alternatives. We must decide how much we are going to spend preparing for the next war or for other purposes that might be eliminated or deferred. At the same time we need to determine how much we are going to make available to

Mr. Frank A. Hecht

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September 30, 1947.

maintain peace through provision of vital food and needed productive facilities to the starving and destitute Western European democracies. It should be recognized that we can not continue to spend as much as we have been for all of these purposes, in the presence of other strong inflationary pressures in the economy, without severe costs and risks. Either the full harness of wartime controls will need to be reimposed, which at this stage is impracticable, or serious inflation with a subsequent disastrous collapse is likely to result. We should endeavor to safeguard our economy from the consequences of any such development.

The purpose of my speech was primarily to point out to the State bank supervisors the forces creating inflation and to suggest what they and the banks might do to help reduce those forces or to safeguard their banks against them. If each of us in his own field should act accordingly the dangers of inflation would be diminished.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles
Chairman.

Enclosure

WT:th

P.S. Since you gave out your letter to the press, I am also releasing this letter for publication.

M.S.E.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

October 1, 1947.

The attached letter by Chairman Eccles is released for immediate publication.

This letter was sent to Mr. Frank A. Hecht, President of the Navy League of the United States, in reply to a letter from Mr. Hecht which was released for publication on September 26, 1947.

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Navy League of the United States,
The Mills Building,
Washington 6, D. C.

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(Signed) M. S. Eccles:

Chairman.

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