THE INEWS

NEW YORK'S PICTURE NEWSPAPER 220 EAST FORTY SECOND STREET NEW YORK 17, N. Y.

MURRAY HILL 2-1234

Sept. 24, 1948

Dear Mr. Eccles:

On August 3, you told the House committee, "I do believe that it is too late to avoid a serious deflationary adjustment at some point. The disequilibrium and the distortions have already been created. I do believe that the inflation can go further if nothing is done and a budgetary deficit develops. It can be long postponed, and can be catastrophic in its effects. Later on, answering Dr. Smith, you said, "You cannot go back to 1940, no matter what; and I do not think that now the economy could stand the deriation that could take you back to 1945. I do not think that is possible now. If this thing continues, and you get a further devaluation, the present levels could look low to you, and they may well be levels below which a deflation could not carry you because of the unemployment and the bankruptcy that deriations create."

Last night, according to my notes, you said, "At the present time we have this situation: The budgetary surplus, due to tax reduction, expansion in foreign aid and...military expenditures, has disappeared. At the top of inflation it is the wrong time to have the budget just in balance. There should be a surplus. It is the most effective weapon there is." Later, "It seems we are in somewhat of a dilemma. There are a lot of soft spots developing in the economy." And in conclusion, "I believe we are approaching, unless further budgetary deficits appear"---and here a reference to the cold war I did not get word for word---"then we will be facing the dilemma of deflation. That will give us considerable trouble. It will give us less trouble the sooner it comes, by reason of the remaining backlog of demand that can be used to cushion deflation."

In August you were unwilling to predict when the adjustments would come about, but last night I got from your words the notion that you thought that now, perhaps, we are on the verge? Was my impression in any way justified?

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As I told you on the phone, I am trying to do a rew pieces on inflation that will make the problem understandable to the man in the street. I think it is our duty to make him understand the seriousness of the situation. The big men having failed to do what needed to be done, perhaps the little man, if warned, can do so mething, so mething at least to protect himself. I recognize that you cannot give me quotations for my exclusive use. Your advice, however, would be invaluable.

Last night I got your program as something like this: "It is desirable that inflation be stopped, that further bank credit be stopped, that insurance companies hold governments for a definite period, that all government units save and curb credit. It is desirable that farm support prices be reduced, that production to the fullest extent possible be maintained. We get at the causes of inflation if there is more production in the fields where there are shortages——control of credit by budgetary surpluses, prevent further expansion of credit."

Is that about it, or is there more to it?

As I understand it, your views and the views of the banking community by and large come into sharp collision on the matter of whether interest rates should be permitted to find their own level, and that your are in opposition because of the necessity of supporting government bonds. Will you explain this situation so that the little man will not be left in doubt?

I realize fully your position, yet I want again to ask your advice in the matter of seeking out the picture of profits in housing. A showing here needs to be dramatized by actual instances. Can I get at tax returns? Is there any other way?

A final question has to do with a later piece. I understand that the Mormon welfare program now urges a two-year supply of food. If you know of it, do you think this program would make interesting reading for the general public?

Sineerely and gratefully, Heizer Wright

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P.S.--Might I have a copy of the statement you read last night---from a speech you made before the Board in the Fall of 1944?

Also, do you have a copy of the statement which you made before the Taft committee?

And I omit ted one other question:

The money supply showed no significant change in June, according to the Economic Indicators of the CEA. An economist for the Chamber of Commerce of the U.S. told me that an unchanging money supply is the forerunner either of stability or collapse. How valid is that statement?

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October 26, 1948.

Mr. Heizer Wright, The News, 220 East Forty Second Street, New York 17, New York.

Dear Mr. Wright:

I called you twice at your office in New York, but found you were away on vacation. I did not want to write a reply to your letter of September 24.

I am sending a copy of a speech which I am making tomorrow before the Iowa Bankers Association, which is on the record, and I am also enclosing copy of an extemporaneous speech before the Executives's Club of Chicago which is "off the record". I hope these may be of some assistance to you.

Sincerely yours,

M. S. Eccles.

Enclosures 2.

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