

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date Oct 10

To Mr. Young

From Mr. Koch

MESSAGE:

This is a copy of a draft of a possible press release for Governor Eccles' speech Friday in Chicago before the Cooperative League. A copy has also gone to Mr. Thurston.

Governor Eccles
This is very good in my judgment.
Only minor suggestions
for J. C. C.

Message delivered by _____

Draft of Press Release for Chicago Speech

One must face today's world and its future with hope but without too much expectation. Events have moved very rapidly these past few years. Three years ago, with our sole control of the atomic bomb, we ~~could~~^{might} have enforced a peace settlement in Russia with little risk of war. Since then Russia and her satellites have gained enormously in economic and ~~monetary~~^{military} strength.

The Communist blitz in South Korea has made all of us reshape our thinking as to the kind of a world we are likely to live in during the next decade. Fears and uncertainty of war ~~lie~~^{lay} in the back of many of our minds prior to June 25. The events of that day and succeeding days have brought them ~~precipitously~~^{sharply} to the foreground. Nor will the end of the war in Korea mean the end of our present emergency. It has just begun and ~~may mean~~^{building} the holding up and maintenance of a garrison state for many years to come.

Two main problems face us in this emergency. First, we must rearm and rearm to the teeth. Secondly, we must organize an economic mobilization program at home to stop inflation and at the same time keep our economy running as efficiently as possible.

As for the rearmament program, Russian aggression can be stopped if ^{we call} their bluff is called and they ~~are~~^{them} convinced that the United States ^{we} will no longer permit further tyranny and conquest. This means (1) that we must utilize all of our resources and labor as effectively as possible; (2) that we must devote as much of our national product to

Could it
be strong
enough
to resist
the rest
of war
the
Russians
were
willing
to
run?

4/10 word

If they don't cooperate, they won't friendly in this kind of a world.
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How are we going to keep them neutral?

defense expenditures as we can afford; and (3) that we must ^{obtain} the maximum ^{cooperation of} [help from as many] friendly nations [as possible] or at least keep them neutral.
and make every effort to win their support of substantial reductions

Of equal importance to a rearmament program is an economic program designed to assure financial stability at home. Two principal programs have been advanced in recent months to stop the inflation. The first involves a comprehensive harness of direct controls including price and wage fixing and rationing of goods. The second is what I have previously called a set of functional rather than direct controls involving principally fiscal and monetary measures designed to reduce the volume of purchasing power available in the hands of individuals and businesses.

But there are no two ways of controlling inflation. Inflation stems from an excess of purchasing power over the available volume of goods and services. Such an excess can only be eliminated by fiscal and monetary measures. Direct controls like wages and price fixing and rationing are not methods of stopping inflation at all. They deal with symptoms rather than disease itself. They merely divert some of the evil effects of inflation underground and postpone the rest.

The cornerstone of a set of functional controls and economic stabilization program must be fiscal measures including principally higher taxes but also lower nonmilitary spending and a proper debt management policy. A prolonged period of partial mobilization like the one we face² must be financed on a pay-as-you-go basis. This involves

maximum efficiency in the spending of every tax dollar and of ^a maximum volume of tax receipts so that the Federal budget can be at least balanced and preferably ^v overbalanced.

An adequate tax program must be combined with a restrictive monetary and credit program if a functional economic stabilization program is to work in stopping inflation. People must not be allowed to bolster, through additional borrowing, ^{their} and spendable incomes that have been reduced by higher taxes.

Basically, monetary and credit controls are needed to stop the growth of private bank credit. This cannot be done on a voluntary basis. Federal authorities must have the power to curb credit inflation. This can be done in a number of ways but every effective procedure must be utilized to decrease the volume of reserves available for use by commercial banks to back additional deposits which are ^{the} principal elements in the money supply.

A program of fiscal and credit measures is an absolute essential for an effective economic stabilization program in the current situation. It must be accompanied, however, by a limited number of selective direct controls such as those ^{on} of certain scarce materials and facilities and a vigorous program to induce people to save. A large volume of new savings by individuals and businesses is required to finance the larger plant, equipment and housing needs of a growing economy.

If a broad and strong functional economic control program is not adopted promptly and put into effect vigorously, ^{either} the inflationary

spiral is bound to continue or a pervasive network of direct controls and restrictions will be opposed without question. Either development would be calamitous.

Inflation injures most those least able to ^{bear} bare injury. It strikes at the democratic core of capitalism. It destroys the strength and moving force of our economic system. It must be stopped. Direct controls would not only seriously impair the functioning of our economic system but would also lead to the weakening and eventual destruction of the very aspects of our way of life that we are seeking to preserve in our defense against Russian Communism.