

Ogden, Utah

Jan. 12, 1932

Dear Marriner--A reporter can not resist setting down on paper a good article when he bumps into it. I have done this with a few phases of your Monday discussions. This I did in order to test my grasp of the situation and also to lodge some of the discussion more firmly in what I call my mind. When I finished the article I became enthused, like all missionaries, with a desire, as a disciple, to spread the gospel of the master. So, if you have no objections and my article is not too awry, may we not publish it? Perhaps I have not presented your views correctly or in sufficient detail. I took no notes and relied entirely on memory. Anyway please read it and let me know what you think of going to press with the same.

Regards,

(signed) Darrell J. Greenwell

Jan. 12, 1932 in  
Ogden, Utah.

BY MARRINER S. ECCLES

AS TOLD TO

DARRELL J. GREENWELL

If the United States were to launch into a major war today, all this talk of balancing the budget or economizing in government expenditures would be silenced over night. The government immediately would tap its great reservoir of credit and place orders for airplanes, trucks, food, clothing, ammunition and cantonments. It would immediately employ thousands of citizens as soldiers and begin paying them wages. Every industry in the nation would be stimulated, prices of commodities would rise, the railroads become profitable, factories hum and frozen assets would become liquid. We should have inflation without cheapening the gold content of the dollar without printing currency that lacked substantial backing.

Now if the government can do all that to wage a war, why can it not do it to wage a war against depression? We know that the results enumerated above would take place because they took place when we entered the World War. We had inflation then of the sort I have described. We could have just this sort of inflation if public sentiment could be marshaled behind a demand for such treatment of our present situation.

We could, for instance, have Congress vote ten billion dollars for public improvements. This money would be given--not loaned--to the states on a population basis to be spent at once by a non-partisan commission with the understanding that if the sum were not spent in a given brief time the money would go to some states that would spend it. Unemployed men would be put to work on any available jobs and if there were not enough jobs the money should be paid out as unemployment wages.

Immediately a purchasing power would be provided that would empty stores of their small stocks and orders would pour in for replacements. Factories would begin to hum and the railroads would begin to transport goods again in profitable quantities. As business expanded through the purchasing power thus generated the income tax would begin taking hold again because citizens once more would be receiving incomes of taxable size and the income tax money would be pouring into the government treasury. This appropriation of billions would provide us with the reflation necessary to get us started on the road to better times.

Then with so-called prosperity established, the government should maintain a system of high income taxes. Heavy levies on big incomes would assist in preventing a mal-distribution of wealth which is one of the sources of our present grief. This high rate should be maintained year after year. When the budget is balanced, the treasury should proceed to pay off the domestic debt and when that is done use the revenue from the high income and inheritance taxes to set up unemployment insurance and old age pensions. Unemployment insurance then would be a cushion to prevent buying power falling too hard in the event of another depression cycle appearing.

Individuals, corporations and state and city governments must economize when times become hard and tax money falls off, but the national government does not need to adopt this policy of thrift, because the national government is supreme in this money matter. It makes the rules. Its credit is virtually unlimited. We don't owe a dime outside of our own country. The government can open the floodgates of credit with no danger of disaster and collect when its reflationary policy has revived business and brought about a new supply of wealth to yield taxes. Business men and others who are crying for lower federal taxes should consider that it is better to pay high taxes and have an income than to pay less taxes and have no income.

We have had just about such a situation (taxes but no income) as a result of methods thus far employed in an endeavor to cure the depression. We have tried, through the efforts of the Reconstruction Finance corporation, to cure our ills by the transfer of debts. There is no gainsaying that good results have come from the R. F. C. but the results have not been all that was expected. Take the case of the railroads. They have received large sums from the R. F. C. but these sums were loaned and merely brought a transfer of the debt load. No debt removal was provided and the sums loaned by the government have not stimulated car loadings. It is easy to see that if large sums had gone directly to the unemployed, purchasing power would have been stimulated and that would have increased railroad business.

Now, as I have said, we could successfully attack the depression through the expenditure of vast public sums in public work, but it seems hardly likely that we shall do this. Hundreds of years of instruction concerning thrift and economy will not be overcome in the time necessary to act. We shall not so soon forget our nineteenth century economics which were based on the then correct theory that the world could not produce enough of commodities to supply everybody with the goods they desired. Now our job is to distribute the wealth of commodities we are well able to produce. Indeed, one of our difficulties is that we have too much wealth tied up in the manufacture of things and not enough in the hands of the consumers so that they can purchase the things we produce so abundantly.

But, because we do not, as Stuart Chase says, have enough people who know what an economic system is for, we shall hardly get this sort of reflation. We are, however, making progress toward legislation that will give us a boost.

One of these progressive steps is the emergency farm relief bill which proposes to immediately increase the price paid for certain farm commodities, principally wheat and cotton, by imposing a processing tax to be collected from the miller or the textile manufacturer. This bill should bring about an increase in farm purchasing power and stimulate the nation's business without greatly increasing the price to the consumer. This legislation should be courageously tried out and it is to be hoped that it does not lose in vigor from too much tripping and compromising in Congress.

There is another way to bring about a reflationary situation and that is in the treatment of debts. Financial writers have told us again and again that the burden of debt is a bar to recovery. The mortgaged farms and homes stultify recovery. Here again we should call upon the government with its reservoirs of credit to reduce this debt burden. A plan to do this very thing is now under consideration. The plan is this. The government would set up a vast corporation to take over farm mortgages. As you know, the government can borrow money today at unusually low interest rates. With great sums of this low rate money, the government through this corporation would pay off the mortgages now bearing the usual farm mortgage rates and in turn take mortgages with a much lower interest rate, a reduction being possible because of the government's ability to get money at a low rate.

If the farm mortgage situation was adjusted on a decreased interest rate, the amounts involved would run into billions and the adjustment would provide us with the inflation the present situation calls for.

A similar system could be worked out for the relief of the mortgaged home owner. There is no longer any secret about the home loan act being a failure. The home loan board hasn't made a loan and can't under the ridiculous features of the measure.

The government's ability to borrow at a low rate can also be used as a lever to boost us in another way. A great program of slum clearance and housing can be undertaken. This could be made a profitable undertaking under a self-liquidating plan, if the money is lent at a low enough rate. And there is no industry which so broadly stimulates all other activities as the building industry. There is crying need for better housing and if private industry wont do it the government should step in as was done when Germany set about to better house its citizens.

There are encouraging indications that bold governmental measures for depression relief may be enacted. Less talk is being heard in high financial circles that the depression will cure itself. That dread word "inflation" is not causing so much terror. Indeed, there are good reasons to suspect that Wall Street, itself, is flirting with the inflationists. This is not to be wondered at in view of the extent to which deflation has progressed. The individual or corporation with a stated income is sitting pretty in the early processes of deflation for, as the buying power of the dollar rises with deflation, the purchasing power of the stated income grows. But when deflation continues the income is decreased or endangered completely through default of the debtors, and the threat of lost income and probably part of the principal, also, begins to make even the most conservative see something of good in the gospel preached by the inflationists.

Many people ask why I, a banker, am advocating a system which they erroneously classify as Socialistic. I reply that my purpose is not altruistic, that I am pressing for the adoption of these measures in the belief

that they will benefit me and the rest of the country more than the system so long preached and defended by the old school of bankers. I am firmly convinced that there must be a better distribution of wealth if our system of capitalism is to function and it is my opinion that one of the best means to bring this about is a heavy levy on large incomes. I believe in a system of unemployment insurance and of old age pensions because we can afford to have such systems and they will serve to stabilize purchasing power and also be an avenue toward the better distribution of wealth. And as I have also said before, I am in favor of jobs for the unemployed provided by federal funds for public works or an unemployment wage, often called a dole, if no jobs are available. All this does not mean I am a Socialist. I am not; I believe we shall find the capitalistic system best meets our needs and temperament, but I do think we should modify that system. We have ample resources to come out of our kinks. The money problem need not stump us. We are virtually self-contained and can supply our own needs and the government can make the rules it needs for our money. Finally I can say that I am much more hopeful than I was a year ago of a turn for the better. There are definite indications that we shall perhaps get what many have been calling for--a new deal.