

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 6, 1939.To Chairman Eccles

Subject: _____

From Mr. Thurston

In talking to Mr. Pinkerton, of the Associated Press, I think you should say to him that you are departing from usual practice in giving any interview to one newspaper or newspaper organization, and that you are doing it in this case because the A.P. is the recognized principal means of disseminating information and that you may remove some of the fog that surrounds this very difficult and controversial subject of government expenditure.

However, that both to protect the A.P. as well as yourself, you feel that you must make the condition that we be given an opportunity to see the article before it goes out, only for the purpose of seeing to it that it is all right from an economic standpoint. You might say that you realize that this is an unusual request, but the subject is of such great importance at this time that it would hurt, rather than help, if the matter were any more confused--that after all, your interest in the article would be that it might serve to clarify the picture.

Then, among other things, it seems to me you might well emphasize again that the central problem is maximum encouragement to private enterprise. Government expenditure, to your way of thinking, is only a means to an end, not an end in itself. The end or objective is stimulation of private activity to the greatest possible degree. You recognize that even in the worst depression, the great load of providing employment and of producing goods rests upon private industry. That, at best, government can contribute only a small share if we are to have our system. Therefore, it is important to remember that government expenditure cannot be a cure-all, and this is all the more evident when it is remembered that many other factors may serve to impede private employment and production.

You have discussed such factors frequently, as before the Senate Committee on Unemployment, and you have discussed them in public speeches. Public expenditure should not be permitted to obscure the existence of these other impediments or should not be considered a substitute for remedying unbalanced conditions and special obstacles such as exist in the field of railroads, housing, utilities, and the incentives that exist for "venture capital" today. Similarly, there is the special problem of agriculture and the unbalanced price

structure as between agriculture and industry.

It must be remembered that in attaining the objective of increasing national income to a point at which the budget can be balanced even on the present level of taxation, every effort must be bent towards having private enterprise increase the national income--government's contribution thereto being in effect an interim means of preventing stagnation, of stimulating private business revival, and of having a leveling or stabilizing influence.

The immediate issue is whether we should have a drastic, sudden curtailment of Federal expenditure, and on this question you are convinced that such a policy, ostensibly intended to balance the budget, would have just the reverse effect because it would stimulate a new depression. Having once lifted the level of government expenditure to the present total, a sharp reversal would only recreate the downswing of 1937, which was in large measure due to the too sharp and sudden withdrawal of government activity-creating expenditures.

In viewing the budget, we would not depart from established business practice if we looked not at the formal balancing of the budget, but at the cash budget, and on this basis in 1937 the Treasury took in in cash more than it paid out for a period of nine months. The point, therefore, is net expenditures or net contribution to stimulation. I think you should stress very strongly that it is not the volume of money that is spent that needs to be carefully considered, but how money is spent. That policy should be shaped so that expenditure will be stimulating and not retarding upon private enterprise. Thus, you might unbalance the budget by \$3 or \$4 billions and spend the money in a way that would discourage billions of dollars of private activity, whereas by only a relatively small unbalance of the budget, a much reduced government expenditure might have the effect, if properly directed, of stimulating several times as much private activity. Thus, to characterize your policy as one of ever bigger deficits and reckless spending is to misunderstand the very nature of what you advocate.

I do not know whether you want to mention it, but I think you might well point out that it is not fair to judge the efficacy of this policy when it has never been put into effect as such; the appointment of the Fiscal Policy Committee, of which you are a member, is proof (as was the President's message) that the whole field

is being approached as a subject of coordinated policy for the first time. Incidentally, I think you might point out the interrelationships, the importance of timing as well, perhaps, as your recognition of the need for such a committee as the President proposed in his message that will organize the operation of such a policy.

You might also lay the ghost of that trick phrase, "You cannot spend yourself rich any more than you can drink yourself sober". In the first place, a man does not drink for the purpose of becoming sober. Moreover, spending by somebody is the only means of prosperity that we have ever had under our system. We do not like spending in the abstract, but somebody's spending is somebody else's income. Savings are valueless unless somebody borrows and puts them to work, or in other words, spends them. Similarly, we all admire the virtues of thrift for the individual, but if we all saved and nobody was so "thriftless" as to borrow and spend, we would have complete economic prostration.

Finally, I think you ought to clear up any idea that you think the public debt need never be paid. I hope you will nail this one hard.

However, you might refer again to the volume, "Debts and Recovery", issued by the Twentieth Century Fund, and the statement on page 14 that:

"Not only do few debtors intend to get out of debt when their obligations mature, but the economic system is so made up that any sudden and general attempt to cut out all debt would be a great calamity. If the banks tried successfully to pay off their debts, for instance, they would deprive us of most of what serves as money in this country, and we should have a catastrophic fall of prices. If merchants all paid off their debts in a short time, they would either have to go out of business or to press their debtors unmercifully. * * * Similar objections would apply to the paying off of any important class of debts."

As one last afterthought, I noticed in an article by Professor Sumner H. Slichter of Harvard, entitled "Profits and Prosperity", in the November issue of the Atlantic Monthly, page 642, that government has for many years contributed something to the purchase of capital goods—that it usually has bought about \$2.5 billions of capital goods a year. What you have been advocating all along is

that the volume, timing and nature of government expenditure together with monetary policy, taxation, and other factors within the sphere of government ought to be directed toward a compensatory functioning as the best alternative to escape from the extremes of dictatorship, and regimentation at one end or a do-nothing policy, which the public would not long tolerate, at the other end.

I forgot one point, and that is, I think you should show that you are aware that there are many loafers on relief. I would not mention Byrd at all, but I would merely say that we have always had ne'er-do-wells, that you are just as much opposed to coddling them as anybody could be, but that what you have been discussing is general economic principles and an approach to the whole problem rather than specific instances either of relative waste, favoritism, or unwise individual cases of expenditure which are bound to exist in any human society politically organized as ours is and must be.



A handwritten signature in dark ink, appearing to be 'A. E. B.', is written above a horizontal line.