JAMES C. OLIVER
FIRST DISTRICT MAINE
239 HOUSE OFFICE BUILDING

COMMITTEES:
MERCHANT MARINE AND FISHERIES
WORLD WAR VETERANS' LEGISLATION

MARION LECLAIR
SECRETARY

Congress of the United States
House of Representatives
Washington, D. C.

May 3rd
1 9 3 9

Hon. Marriner S. Eccles, Chairman
Board of Governors of the Federal Reserve System
Federal Reserve Bldg., Washington, D. C.

Dear Mr. Eccles:

Let me express to you my deep appreciation for the comprehensive reply which you have made in your letter of April 22nd to my communication of March 16th.

I have noted with intense interest the contents of your statement and, although I do not wish to bore you with a long sustained series of argumentative epistles, nevertheless I do feel constrained to comment on several particulars which you have incorporated therein:

In the 2nd paragraph of your letter, referring to the question of whether or not price stability should be the sole or principal objective of monetary action, you concluded that "it is the Board's belief that the ultimate objective should be economic stability". Certainly, we do not approach our International problem from this standpoint. The Stabilization funds of this country,and others as well,have been established for the purpose of maintaining monetary stability internationally as a prime basis for price stability in the best interests of economic stability. It occurs to me that it is just as impossible to achieve economic stability domestically until some degree of price stability has been established. Does this make sense to you and if it does, why does your Board not take steps to stabilize prices with monetary action or recommendations for legislative cooperation to this end and worry about economic stability thereafter?

In the 3rd paragraph of your communication you suggest that "that, notwithstanding the abundance and cheapness of money, business has been less active in recent years than in earlier periods, shows that there are retarding factors other than the supply and cost of money". In this regard, it seems

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to me that you and your associates, in failing to recommend the adoption of a course of legislative action which would place directly in the hands of our most needy and insecure citizens the dollars of purchasing power of non-debt created currency which are necessary to counteract or compensate for these retarding factors to which you refer, have contributed tremendously to the continuance of our absurd unemployment and insecurity crisis.

In the 5th paragraph of your statement, you declare that a program which would furnish "tremendous additions to our money supply would tend to create a condition of fear and uncertainty in business and financial circles that would rapidly spread to the general public". Speaking of business fear and uncertainty, it surely is obvious that the continued program of deficit financing with debt dollars has contributed materially to this very result which you fear might follow a course of currency expansion. However, your statement pays the usual tribute to the orthodox fear of inflation but you, at the same time, failed to mention the deadening and demoralizing effects of a long-continued deflation such as the present deflation which is engulfing the farmer, the laborer, the small business man, the youth, the aged, in short, the entire population of America in the mire of poverty, insecurity, fear, broken morale and lost faith. In my opinion, Mr. Eccles, a public policy which refuses to face the issue of deflation is just as "irresponsible" (if not more so) as is a public policy of the type to which you refer. Surely, you appreciate the fact that our tremendous potential productive capacity and our unexcelled supply of raw materials can absorb for an indefinite period of time the impact of the possible inflation which you suggest might be the result of "tremendous additions" to our money supply. Furthermore a deflationary tax program could be used to act as the safety valve for a too-excessive head of steam which might be generated if your fears of runaway and uncontrolled inflation materialized. Surely, if a European war of major proportions started and if the United States were involved, then you and your advisors would doubtlessly supply a monetary vehicle based on unorthodox and unconventional banking and financial practice to ride thru the emergency period. Why is it not just as essential or even more so that we do the same now in this war on unnecessary unemployment of our plant structure and of our man power with its accompanying disastrous results for our economy?

Your evident and ready grasp of the monetary possibilities available to our economy has always commanded my admiration and

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respect, but your present apparent unwillingness to carry on with a bold and forthright program of non-debt created currency expansion forces me to conclude that you are not willing to cut loose from the orthodox and conventional debt-pyramiding fractional reserve banking practice and the debt money complex with its blind superstition and its prejudiced viewpoint. As long, Mr. Eccles, as we persist in this crucifixion of our people on the cross of deficit financing and debt money, just so long shall we continue to shake the foundations of our free institutions and our free economy. We, who have interested ourselves in this monetary approach to our economic paradox had hoped that your understanding of the Monetary system would permit you to recommend a course whereby starving America could adequately nourish itself.

You also state that you have advocated a broad public program of expenditure for non-competitive projects and social benefits. We all appreciate this and respect your sincerity of motive in this recommendation. But, you also advocate as a method of financing this program a continuation of deficit financing with debt dollars. Obviously, the debt basis of money already overexpanded, at least publicly and politically, cannot be further utilized to do the job which you envision in your advocacy of social benefits and public works. So, why not frankly recommend the only course of action left open and make possible a continuation of a free economy under the process of free institutions?

Other nations which lack the Natural resources with which this nation is so richly endowed and the mass production technique which we have developed have shaken off the shackles of orthodox and "stuff-shirted" finance. Why do you hesitate to recommend a monetary course which will open up for us the necessary approach to America's terrible tragedy of Unemployment?

Assuring you that I have more than a lurking suspicion that you know the way out of our present economic dilemma, I am

Very truly yours,

J. C. Oliver

JAMES C. OLIVER, M. C.

May 17, 1939.

Honorable J. C. Oliver,
House of Representatives,
Washington, D. C.

Dear Mr. Oliver:

I have your letter of May 3 with further reference to the problems of monetary policy and economic stability.

It seems to me that we are in essential agreement on the proposition that it is necessary at this time for the Government to continue its important contribution to national buying power in order to promote business recovery. We disagree only on the method of financing these expenditures. You would have the Government issue greenback currency, while I am in favor of continuing the present practice of selling interest-bearing obligations to the public. I have given you already my reasons for opposing financing through currency issues and I can make no significant addition to my previous remarks.

There is one point on the general problem that I might discuss briefly here. From the standpoint of business recovery, the stimulating effects of Governmental expenditures would not be enhanced under ordinary circumstances by issuing new currency instead of borrowing. It makes no difference to the W.P.A. worker, to the farmer, or to any other recipient of Government funds whether his payment is in the form of a Treasury check or in currency. In either form it is immediately available to purchase the goods and services he desires. The sellers of the goods and services likewise receive the funds free of any debt obligations that might influence their future decisions to spend or hold their money.

It seems to me the main circumstance under which financing through borrowing might detract from the stimulating effects of Government spending is if the purchasers of the securities would have spent their money for consumption purposes or invested it in new capital outlays had there been no new offering of Government securities. In periods like the present when opportunities are decidedly limited for such investments on terms that

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are attractive to the types of individuals and institutions that purchase Government securities, this is not a matter of great importance. To the extent that Government obligations are purchased by banks, they do not absorb investment funds at all, but rather create new money and consequently new purchasing power. In fact, the greater part of the increase in our money supply since 1933, which has carried it to the highest level on record, has been due to purchases of Government obligations by the banking system.

In view of these considerations, it seems to me that you can continue to urge the adoption of legislative action which would place Government funds in the hands of our "needy and insecure citizens" without fear that the good effects will be counteracted if the funds are raised through borrowing.

May I assure you that I am not bored by your letters and that I am glad to have your views at any time?

Very truly yours,

M. S. Eccles,
Chairman.

HE/EAG/fsc

Eccles

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