

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

October 1, 1947.

The attached letter by Chairman Eccles is released for immediate publication.

This letter was sent to Mr. Frank A. Hecht, President of the Navy League of the United States, in reply to a letter from Mr. Hecht which was released for publication on September 26, 1947.

September 30, 1947.

Mr. Frank A. Hecht, President,
Navy League of the United States,
The Mills Building,
Washington 6, D. C.

Dear Mr. Hecht:

Your letter of September 26 takes issue with remarks attributed to me in the Washington Post regarding the bearing of expenditures for national defense upon the present inflationary situation. I am sending you a copy of my prepared statement, which was released to the press; the complete statement will make it possible for you to judge my remarks in their proper setting. I am somewhat surprised that your letter, which was based on an incomplete press report of my speech, was given out for publication before you read my complete statement.

You will note that I discussed the basic causes of inflation growing out of governmental policy of war finance. I pointed out that inflation is certain to result from war unless controls are maintained until supply and demand are more nearly in balance. In discussing the necessity of continued large expenditures by the Government, especially for foreign aid, I indicated that it cannot be denied or ignored that they are "a heavy current burden upon our taxpayers or a strong inflationary force on our economy, but so are our even larger military expenditures, which are considered by many as necessary for maintaining peace."

Under the circumstances any large Government expenditures are inflationary or in any event reduce the ability of the Government to follow an anti-inflationary policy without further increases in taxes. With military expenditures comprising the largest single item in the budget, it must be recognized that they are one of the most important factors that contribute to inflation. There are certainly many others. What I endeavored to point out in my speech was that the public should be fully aware of the costs and risks involved in the various policies being followed.

We are faced with a choice between unattractive alternatives. We must decide how much we are going to spend preparing for the next war or for other purposes that might be eliminated or deferred. At the same time we need to determine how much we are going to make available to maintain peace through provision of vital food and needed productive facilities to the starving and destitute Western European democracies. It should be recognized that we cannot continue to spend as much as we have been for all of these purposes, in the presence of other strong inflationary pressures in the economy, without severe costs and risks. Either the full harness of wartime controls will need to be reimposed, which at this stage is impracticable, or serious inflation with a subsequent disastrous collapse is likely to result. We should endeavor to safeguard our economy from the consequences of any such development.

The purpose of my speech was primarily to point out to the State bank supervisors the forces creating inflation and to suggest what they and

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the banks might do to help reduce those forces or to safeguard their banks against them. If each of us in his own field should act accordingly the dangers of inflation would be diminished.

Sincerely yours,

(Signed) M. S. Eccles.

Chairman.

P. S. Since you gave out your letter to the press, I am also releasing this letter for publication.

M.S.E.