We feel strongly that this problem is not to be solved by the method of waiting for it to solve itself.

Private and confidential.

We, the signatories of this letter, occupy official positions as teachers of economics, in the university of Oxford. We wish first to state our grounds for venturing to write to you.

We are all interested in the question of monetary policy and have, as a matter of professional duty, followed the events of the recent depression closely. ~~We all believe that laissez-faire is no solution of the economic problems which confront us.~~ We believe that a deliberate policy of ~~planned~~ expansion ~~or inflation~~ is desirable, both to hasten the amelioration of present troubles and also to lay the foundations of policy designed to prevent the recurrence of similar troubles in future.

We have expressed in public our views regarding the application of these ideas to British policy. We have throughout the depression remained convinced that counter-acting measures of expansion should be adopted, on principles ~~the fundamentals of~~ which have in our judgment remained fundamentally unchanged.

We believe that positive measures are even more important in the U.S.A. than here. We therefore welcomed with enthusiasm the indications which came to us ~~in the early days of your administration~~ that an expansionist policy ~~was likely to be pursued~~ was to be pursued & that a programme of Public Works was to play a very bold & prominent part in it. ~~We welcomed with enthusiasm~~ We welcomed with enthusiasm your statement to the World Economic Conference of July 1 which rendered a joint attempt to buttress up the old system out of the question. We also welcomed with enthusiasm your statement of October - that a resolute attempt would be made to raise commodity prices in the U.S.A. to a specified level and thereafter to ~~maintain~~ prevent fluctuation in the commodity value of the dollar ~~stable~~. We believe that the policy of which these statements contain the promise might if wisely pursued usher in a new era of prosperity, and ~~We believe~~ that some such policy is a matter of urgency if western civilization is to be maintained. We ~~believe~~ think that this is a great opportunity for the U.S.A. to assume leadership in these matters.

bigger gap here

It is our intention in the following paragraphs to outline as briefly as possible the means by which such a policy would in our judgement be rendered effective. ~~In doing this it may be well to begin with a list of negatives and then to proceed to our positive recommendations.~~ We also feel it desirable to refer to ~~In setting aside~~ certain expedients ~~we do not wish to affirm that there is nothing to be said in their favour or that they have no positive merits of their own. We only claim that they~~ that cannot be relied on as the principal weapons in the specific task of restoring the volume of output and employment. We do not wish to affirm about these expedients that they have no positive merits of their own or that there is nothing to be said in favour of them. ← Go on straight to page 5.6 Then big gap

1. We do not believe that relief should be sought in the first instance by measures designed to increase the quantity of ~~actual~~ money ~~in circulation.~~ ~~We do not believe that~~ ~~Post-war~~ We do not believe that

[illegible] dangers of [illegible] this resource.

stet / ~~resort to the printing press in the~~ liberal ~~sense would be~~ of ~~value.~~ stet / Nor do we believe that there is much to be gained through the further injection of credit by open market operations of the Federal Reserve System on a large scale. This is not to deny that the purchases in the spring of 1932 were highly beneficial. It is essential that money should be kept as easy as possible and the indebtedness of the member banks to the Federal Reserve Banks should be kept at a low level. If sufficient purchases are made to satisfy these two conditions, further additional purchases would not of themselves necessarily have an ~~inflationary~~ (expansionary) effect.

It is to be observed, however, that both the ~~use of the printing press~~ issue of additional loans currency expansion and further purchases by the Federal Reserve System may subsequently become necessary again, as ancilliaries to the other measures of internal ~~inflation~~ which will be recommended below. Much use of the printing press does not however, seem likely to be required.

2. We regard with profound respect your intentions in instituting the industrial codes. We appreciate that the new deal with labour was conceived as a great piece of humane and progressive statesmanship and that it may be regarded by future historians as an important landmark in American progress towards more rational relations between employers and employees, between the rich and poor.

We are bound to say, however, that while recognising the great merits of this legislation so conceived, it is not specifically conducive to quickening economic activity. ~~We do not believe that an increase of~~ ~~purchasing power (among wage-earners)~~ wage rates ~~which entails a pari passu increase in the costs of production, has in and by itself any effect in stimulating recovery.~~

It does not follow that we condemn this policy or would wish your work undone. We merely regard it as irrelevant to the objective about which we are writing this letter. It is necessary to particularize.

p 2a comes in here

A rise of money wage rates may do no harm if it is accompanied by a sufficient rise of prices to cover the increase of costs consequential upon it. Such a rise of prices may be made to occur, if simultaneously some other measures likely to cause a rise of prices can be put into effect. But it must be noted that the rise of wage rates cannot be relied on to secure, in the absence of these other measures, a sufficient rise of purchasing power (e.g. if the rise in wage rates led to a decrease of employment). And, if the rise of purchasing power does not proceed at the same time, the rise in costs may be positively harmful to recovery. The existence of the codes makes it all the more necessary therefore, to execute other measures simultaneously.

Harrod 4.27-2

Labour measures resulting in a rise in costs otherwise than through an increase of wages are likely to be injurious to recovery. For instance a shortening of the working day may make it difficult for an employer to handle his labour force as efficiently as before and so may cause his money costs to increase more than the money purchasing power of his employees increases. This is likely to have a restrictive effect. The labour measures may be highly desirable on general grounds and we do not recommend their reversal. Their injurious effect may be counter-weighed by the natural progress of industrial efficiency. But here again their presence may make it all the more necessary to execute other simultaneous measures for increasing purchasing power.

We do not recommend the shortening of the working day, unless justified by its own merits on grounds of social welfare, as a remedy for unemployment. We think it likely to slow down and not to quicken economic activity.

3. We do not think that loans to corporations by such bodies as the Reconstruction Finance Corporation, even if financed by "inflationary money", necessarily tend to quicken activity. The test here is whether they are used to finance the output of new capital goods. If they are merely used to enable corporations to liquify their assets, they may have little or no effect in reviving activity. Such loans may often be justifiable. But there is danger that too much "inflationary money", the creation of which must after all be of a finite amount, may be used for this purpose, and too little left over for use in ways which would cause an actual expansion of activity.

4. We do not condemn schemes for ~~valorizing certain raw products by restricting output~~ regulating the output of raw products which have fallen to relatively low values. But we point out that this is only a ~~partial solution~~ temporary remedy of the problem. ~~They~~ Such schemes may enable farmers to keep in line with the restrictive policy of manufacturers and so improve their relative position. But ~~it must be remembered that~~ the main objective is a reversal of restriction all round. Moreover it is doubtful if much can be done, through restriction, to increase the purchasing power of farmers except with international co-operation. Farmers are, however, directly benefited in so far as restriction among manufacturers gives place to expansion, since the demand for their products is thereby improved.

5. We do not believe that the purchasing power of the dollar can be effectively reduced, by depreciating its value either in terms of other currencies or of gold.

Section from p. 25 4 comes in here

Professor Irving Fisher many years ago propounded a scheme for stabilizing the commodity value of the dollar by varying its gold content. This scheme has been held to be on right general lines in the past by many distinguished economists. ~~including ourselves.~~ But we do not think it would be effective in present circumstances. Two conditions are necessary for its effectiveness. (i) Action must be taken as soon as any tendency to deflation (or inflation) appears, so that the forces of slump or boom may be counteracted before they have gathered strength. (ii) The rest of the world, or most of it, must be on the gold standard.

If the rest of the world is not on the gold standard, raising the dollar price of gold is not likely to have much effect on the general level of dollar prices.

If a few other countries are on the gold standard, raising the dollar price of gold is tantamount to depreciating the dollar in terms of the ~~gold~~ currencies of the countries. The consequence of this is that the prices of commodities of a staple and internationally tradable character must be adjusted accordingly. This adjustment may consist of a rise of American prices or a fall of gold prices or partly of both. If the gold countries are of less economic importance than the U.S.A., the fall in them is likely to be greater than the rise in the U.S.A. Thus the rise in the price of gold has but a weak effect in raising dollar prices and a stronger effect in reducing gold prices. It plunges the gold countries into greater difficulties and is likely, if pursued ~~in~~ à outrance to drive them off the gold standard. If this result is achieved, the gold policy becomes quite ineffective in raising American prices.

The consideration advanced in the last paragraph has a broader application. ~~More broadly,~~ Any policy of dollar exchange depreciation has a weakening effect on the outer world unless accompanied by a vigorous internal inflation of American purchasing power. Now it is essential from the world and the American points of view that any revival of activity in the U.S.A. should be allowed to have a stimulating effect on the rest of the world.

External depreciation unaccompanied by internal inflation, lowers the (foreign) prices at which Americans are prepared to offer their goods for export without directly increasing her demand for world goods. This must deepen foreign depression and may nullify, so far as the effect on America is concerned, the relative improvement of her position as an exporter directly caused by dollar devaluation.

It does not follow that dollar devaluation in terms of other currencies must be ruled out. On the contrary it may be desirable. But what is essential is that it should follow as a corollary from internal inflation and not be used as a lever for producing internal inflation. If used in the latter way it is likely to be ineffective in the U.S.A. and detrimental elsewhere. But if the U.S.A. embark on measures of genuine internal inflation of ~~a~~ the kind ~~to be~~ mentioned ~~below,~~ above, and if the

goes in on p.3 see also over

other countries do not fall into line with parallel policies, then some external depreciation of the dollar is to be expected and welcomed. goes in on p. 3

This comes on towards bottom of page 1.

It ~~is time to turn to the constructive side~~ of the argument.

We believe that inflation of a kind likely to ~~stimulate activity~~ increase output and raise prices can only be produced by an increase of incomes which is not accompanied by an equivalent increase in the costs of producing the goods which these incomes are used to buy. We lay stress on the increase of incomes by contrast with (1) an increase of money in circulation and (2) an increase in the liquidity of corporation assets.

We suggest three ways in which such an increase of incomes may be brought about.

1. An increased production of capital goods increases the incomes and expenditure of those engaged on their production without increasing the quantity of consumable goods on the market. It thus tends to raise the price level of those consumable goods.

5a comes in here

The increased production of capital goods may be stimulated by low interest rates, especially a low long-term rate. This constitutes an ~~overwhelming argument in favour of an easy money policy.~~

Unfortunately in certain circumstances the stimulus may be ineffective. It will be ineffective if there is no confidence in the future course of prices and also if there is such an excess of productive capacity in the form of capital plant already existing, that the demand for new capital plant cannot be much expanded by a low interest rate. In the depth of a depression an easy money policy is not enough. It requires the assistance of other measures.

We are thus in a vicious circle. Consumers' purchasing power can only be increased by an increased production of capital goods. But the tendency to produce new capital goods will be very weak until the consumers' demand for consumable goods is greatly expanded.

Thus in the depth of a depression the easy money policy is not enough. This is not to say that it is unimportant. For as soon as a genuine revival has got going, the demand for new capital goods will become effective once more. This is likely to have much bigger effects in assisting the climb back to normality in its later stages than in its earlier stages. Indeed in the later stages it may do all the work without the assistance of other measures. But in the early stages such assistance in indispensable.

2. We believe that the principal weapon in raising prices should be a great campaign of Public Works. In addition to the direct employment given, Public Works also give employment in the first instance to the trades producing the necessary raw materials and capital equipment.

But they have a further repercussion, which is of the first importance in considering a policy of raising commodity prices. The wages, salaries etc., paid out to those engaged in the employment already mentioned will be largely expended on consumable goods. Thus the desired effect of a rise in the purchasing power devoted to consumable goods, unaccompanied by an increase in the gross costs of producing them is secured. Thus a force is set up tending to raise commodity prices and to expand the output of consumable goods. In our opinion this measure should take priority of all others and the whole strength and ingenuity of the Administration should be put behind an immediate attempt to give effect to it.

3. Another means of raising purchasing power without increasing costs, is to distribute incomes by way of unemployment relief and other social services with borrowed money. It is essential that these schemes should not be financed by taxation. If they are, the income that is put into one pocket is taken out of another, and there is no net increase/of purchasing power nor tendency for prices to rise. We therefore recommend a great drive for relieving distress through the agencies of the federal, state or municipal administrations on borrowed money.

p 6 A comes in here

~~4~~5. We believe that it is important that the borrowings incurred for purposes 2, ~~and~~ 3 and 4 should not be allowed to raise the long-term interest rate. It is desirable that the federal Reserve Banks should ~~the duty of the banking system to co-operate in the policy and~~ make such purchases of securities as are necessary to prevent rates rising and ensure that funds are available for government borrowing. This conforms to the principles laid down in our first recommendation.

here ends the passage to be inserted on page 1.

Finally we should like to use the whole weight of our authority in pressing the policy indicated in 2 and 3 upon you as a matter of urgency and as the only effective method of reducing the commodity value of the dollar.

We have the honour to be

Big gap here