

January 28, 1949.

Honorable Wright Patman,  
House of Representatives,  
Washington, D. C.

Dear Wright:

While I think I understand after my many years in Washington some of the exigencies which confront those who have to run for public office, I am nevertheless still greatly disheartened when intelligent men like yourself go beyond the bounds of fact. It is certainly grossly unfair for you to ascribe to me, or to any member of this Board for that matter, such a monstrous misrepresentation as has appeared in some of your statements in the Congressional Record and in the public press in regard to Regulation W.

You know perfectly well that I never have advocated, and do not now advocate, a depression or recession. All of my energies ever since I have been in Washington, as you ought to know, have been devoted first to fighting a deflation and depression all through the thirties and then throughout the war and since to combating an inflation which could only culminate in severe economic readjustment — to use no stronger word — the longer the inflation continued and the worse it got.

There is such a close parallel between what you have been saying and what Henry Kaiser has been giving to the press and to me personally that I am enclosing, in confidence, a copy of his recent telegram to me and my reply. I do not care to debate this issue in the press because such a debate so often degenerates into exaggerated statements and misrepresentations. I cannot let pass, however, without vigorous protest, off the record at least, against some of the things that you and Kaiser say publicly. I enclose also and ask you to take note of the interview I recently gave to the U. S. News and World Report which states correctly my view that the sooner we have a correction of the serious maladjustments within the economic structure the less serious that readjustment will be. The more we let conditions get out of gear the worse it is bound to be. I have known

Henry Kaiser for many, many years and have great admiration for his extraordinary accomplishments in the industrial field. I would like to see him succeed in his daring venture into the automotive field. Getting more and more people to go into debt at high prices for his cars is not the solution of Henry Kaiser's problem and he is intelligent enough to know it. The only real solution and the one thing that would be in the interest of the general public would be to lower prices for automobiles, not sustain higher prices and lower and ease our credit terms. Let's face this issue of Regulation W on its merits and not by misrepresentation of the facts. Far from being "tyrannical", as you allege, the Board's administration of this Regulation may have been too lenient rather than too harsh for all that the Regulation has been able to accomplish is to slow up the rate of growth of instalment credit but not to stop the steady expansion of this type of consumer debt. To put into effect a meaningless regulation that had no effect whatever would be worse than nothing at all.

In view of our long acquaintance I think I may be forgiven for saying to you very frankly how I feel about the recent statements of yours.

Sincerely yours,

M. S. Eccles

Enclosures

P. S. I have just received a letter from your home State, a copy of which I am enclosing because I am sure you will find it interesting.

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Jan. 12, 1949, 1 P.M.

Telegram  
Leased Wire Service  
Received at Washington

Willow Run Mich, January 12, 1949

Marriner Eccles,  
Federal Reserve Board

I am leaving today for West Coast still somewhat stunned as result of my conversation with you. It's hard to believe you actually think a depression is necessary and that so much human suffering must be created. Yes, Marriner, after you stated to me yesterday your belief that the longer a depression is held off, the worse will be the suffering, it was my prayer that you would open your heart and mind to the overpowering aspiration and determination of the American people to maintain high employment and high production. Everyone recognizes that increased production will lower prices. It saddened me to think, in our discussions on Regulation W credit restrictions on automobile purchases, that you did not seem to understand that Congress, in granting you limited powers, had specifically entrusted you with a great responsibility and the duty to "maintain the highest possible level of production and employment in the durable goods industries." You know even more intimately than I that interpretations of laws of Congress are based upon the intentions of Congress, and the intentions and objectives are usually stated in the Congressional Committees' deliberations. So please forgive me for reiterating so many times in our telephone conversation--and now again--that Congress specifically cautioned you against misusing credit powers to plunge us into a spiral of unemployment. Deflation and manmade depression. Simply by practicing the "flexible and sensitive policies" which Congress recommended for adjusting regulations, it seems

to me it is your duty immediately to extend the present 18-month payment period for autos to 24 or 30 months. That one act would restore the right to buy cars to countless families of moderate incomes and would do much to check the damage that Regulation W is spreading throughout the entire automotive industry, which supplies jobs to one out of seven employed persons in the United States. Because the Federal Reserve Board has not seemed even to have taken cognizance of the Congressional intent regarding the Board's duty to avoid creation of a depression, I am quoting herewith the recommendation of the Senate Committee on Banking and Currency of August 6, 1948, as follows:

"The Committee, in its hearings and discussions on the Consumer Instalment Credit Control provisions of the resolution, has at all times been concerned over the effects of the contemplated regulation on sales, production and employment in the affected durable-goods industries. We recognize the probability that all of these will be influenced unfavorably by any effective regulation. "However, it is not the Committee's intention to recommend a mandate to the Board of Governors or the Federal Reserve Board for the re-instatement of the identical terms which prevailed through most of the war period under Regulation W., when the avowed intent of Regulation was to throttle the demand for durable goods. The Committee wishes to leave the question of down payments and terms exclusively to the discretion of the Board but wishes to advise the Board of its earnest interest in assuring that regulation brings about the least possible dislocation of industry. It is to be hoped that the Board will adopt flexible and sensitive policies which

"will maintain the highest possible level of production and employment in the durable goods industries, on which so much of the nation's standard of living and well-being depend."

When you discuss the crisis created by the 18-month payment period on autos with your fellow Board Members, I am sure they will want to take into consideration the Congressional history and recommendation preceding passage of this legislation. I hope your action will be in time to head off further hardships to the people. Throughout last night it was impossible for me to feel that you could say you were willing to have a depression with attendant unemployment, closed factories, throttling of production, bankrupt businesses and all the hardships of the people. Really, Harriner, it was out of a heavy heart and a deep hope for you to open your mind that I said, "God forgive you, for you know not what you do." I couldn't leave without telling you these things.

Henry J. Kaiser.

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January 18, 1949.

Mr. Henry J. Kaiser, Sr., Chairman,  
Kaiser-Frazer Corporation,  
1924 Broadway,  
Oakland 12, California.

Dear Henry:

I have been sympathetic toward you and your companies and have followed your progress with great interest since you entered the automobile field. I have always opposed monopoly, whether in the field of industry or finance, because the public welfare is best served by adequate competition.

Many thousands of your cars have been sold for \$2,300 to \$3,000 each, and your assets have grown to \$95,000,000.

But, Henry, if you want to help the average American, why don't you offer him a car at a price he can afford to pay? That would be far better than your suggested amendment to Regulation W by which you would weight him down with a lot of extra debt in order to sell him your car at your present prices.

If you choose to spend your time issuing statements against me, or against the Board of which I happen to be a member, that is your privilege. But it is most saddening to think of Henry Kaiser, the great production genius, devoting himself to such side lines instead of getting down to the business of offering the people of this country a car at a price they can afford to pay.

You know that the broad questions to which you refer in your four-page telegram of the 12th could not be adequately covered in a brief letter. However, I feel that I should at least try to correct some of the misconstructions you seem determined to place on my views. Those views are outlined in an interview published in the "U.S. News & World Report" for January 7, 1949, and I am enclosing a reprint.

For the more than fifteen years that I have been in public service one of my chief concerns has been to prevent another depression-- or to moderate its ravages as much as possible if it should unfortunately be forced on us as a result of man-made inflationary excesses. That is what the fight against inflation is all about.

You have your opinion as to the present status of inflation. Others may feel differently. As I said in the interview:

"A lot of scattered evidence has been piling up recently indicating inflation is coming to an end and downward adjustments are developing in certain areas. Of course, whether you think inflation is over depends upon the weight you place on this evidence and whether you believe the basic forces that have caused inflation have worked themselves out. Naturally, any conclusion can be upset by Government action."

Henry, I am sorry you refuse to recognize the amount of inflation we have already had, and that you deliberately close your eyes to the further damage that can be caused--to the country generally, though perhaps not to some individuals--by unsound efforts to hold present inflated levels. You are undoubtedly familiar with the facts. But, of course, "No one is so blind as he who will not see." To quote again from the interview:

"Consumer prices are up an average of 75 per cent since 1939, and since the end of the war they have risen about 35 per cent. Prices of housing, most foods, and many other consumer as well as capital goods have increased much more. An inflation of this size brings with it serious dislocations which make for future trouble. The longer it is allowed to continue the more difficult the ultimate adjustments.....

"In order to maintain present inflated levels, we must not use the props which are appropriate for depression. That is, we should not, at present inflated prices, employ the cushions that should be available to ease off a recession.....

".....(some of the cushions are) the huge backlogs of needs for all kinds of public works,.....the needs for private homes and many kinds of durable goods; as well as easing of credit terms,.....I believe that a deflationary adjustment coming now would not be of long duration or too severe and could be very salutary, whereas, if we now waste our elements of strength to sustain inflationary dislocations, the postponed deflation would be much more serious and of longer duration."

Let me repeat. If the country achieves a temporary stability at the existing level of prices by the prop of a further sizable credit expansion, whether bank or otherwise, then it is storing up real trouble.

Henry, you can rest assured that this Board carries out the instructions of Congress. You will pardon me if I remind you that the directives of Congress and the ideas of Henry Kaiser are not necessarily the same. This Board continuously reviews the condition of business--all kinds of business. It constantly re-examines credit policies in the light of changing conditions. Board policies are both flexible and sensitive. They are also designed to serve the general welfare of all instead of special interests of a few--a feature that some may be inclined to overlook.

Excessive instalment credit for automobiles at this time might give an apparent but temporary stability to some companies' profits by further inflating a demand that is already generally in excess of supply. But it would raise future problems that would make it harder for the country to maintain high production and employment. Would you want this Board to encourage such excessive credit now at the cost of future trouble for the country?

I have always said that too much should not be expected of Regulation W. It is, of course, only natural that it should have some effect, and the Board should endeavor to see that it has such effect as is appropriate in the circumstances. Only in that way could the Congressional intent be carried out.

You know even better than I that there are a number of other factors influencing the automobile situation at the present time. I will mention only a few. This is the off season. There has been much unfavorable publicity regarding gouging practices of some automobile dealers. Many prospective customers are awaiting a "look-see" at new models. And you cannot get away from the fact that present prices are a real deterrent, except perhaps in the lower priced lines where there is still a substantial shortage.

It seems clear, therefore, that what your company needs to sell its cars is not longer credit terms but lower prices.

The reports of Congressional committees are indeed of great significance in showing the purposes of legislation. You are mistaken in implying that the language in quotes in your telegram is from a report of August 6, 1948, of the Senate Banking and Currency Committee on consumer credit legislation. However, the Senate Banking and Currency Committee did state the objectives of Regulation W very clearly in its report.



Mr. Henry J. Kaiser

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recommending enactment of the present legislation. That report shows that Regulation W is of special benefit to the person of moderate or low income. It shows that by guarding against excessive debt, Regulation W helps to protect the pocketbook and the job of the average citizen.

I want to call that statement of the Committee to your attention, Henry, and I hope you will find it in your heart to recognize the evils of excessive debt that the Congress and this Board are trying to ward off but which you--unwittingly, I trust--have been trying to force on the average American:

"Only harm could result from inducing millions of American families to go heavily into debt on too easy terms for goods at the present high level of prices. The excessive credit built up in that way would not only increase present inflationary pressures; it would have to be liquidated later out of current income should a down swing occur, thus necessarily diverting that income from the channels of consumer expenditures in the ensuing period...

"...excesses in the field...(of consumer credit) can be harmful not only to the people directly involved, but also to millions of others who are penalized by the inflationary effects of such excesses. The person of small income is the one hit hardest when inflation pushes prices beyond his reach, and the one who suffers most when the resulting deflation throws him out of a job. The legislation should tend to result in directing competition along the line of decreasing prices rather than extending excessive credit terms. By making some contribution toward preventing further inflation at this time, and thus toward moderating any ensuing deflation, consumer instalment credit controls can especially serve the interests of the person of low income in addition to serving the interests of all other consumers affected by our national economy." (Emphasis added)

You will realize, of course, Henry, that the opinions in this letter are my own personal views and not necessarily those of the Board of Governors of the Federal Reserve System.

Sincerely yours,

M.S. Eccles.

COPY

*Wm. E. G. Kent*

CENTRAL MOTOR COMPANY  
WACO, TEXAS

J. N. Mitchell

January 25, 1949.

Mr. Marriner S. Eccles  
Board of Governors  
Federal Reserve System  
Washington, D. C.

Dear Mr. Eccles:

I heard over the radio last night that the Executive Committee of the National Automobile Dealers Association had officially recommended to the Federal Reserve Board to liberalize Regulation W to allow 24 months' installment credit terms against the sale of new cars, to permit people of low income to purchase new cars for use in going to and from work.

The millrun of automobile dealers are not so altruistic that they think more of the interests of buyers than of themselves.

I was a Director, Vice President, and a member of the Executive Committee of NADA, for a number of years prior to 1948. I have been a retail dealer, representing Dodge and Chrysler in Waco, Texas, for thirty-four years. I believe I am qualified by experience to know something about the soundness of automobile credits.

Under the existing circumstances, I cannot conceive of any movement that would be, in the long-run, more detrimental to the automobile industry, to the retail dealers, and to the buying public, than to extend credit terms to 24 months against the purchase of new automobiles.

The average person who cannot pay more than one-third down on the purchase of a new automobile and liquidate the balance in 18 equal monthly installments has no moral or economic right to purchase a new car above that price. Whenever you establish the basis of 24 months' credit terms to purchasers of new automobiles, you are automatically encouraging people to purchase out of their price class -- with resultant credit losses.

Mr. C. M. Wilson, President of General Motors, is quoted in Automotive News, of January 24, 1949 issue, as stating (with reference to extending terms to purchase new automobiles), "I am not in too much of a hurry to get too many folks in debt." In that same issue, Mr. Albert Bradley, Vice President of General Motors, is quoted as stating, "It would be unfortunate if every time business got a little

tough the credits were stretched out frather so that a longer term became the standard." I think, Mr. Eccles, you will agree that those gentlemen are qualified by position and experience to speak wisely on this subject.

Used Car inventories are high, and the market is becoming more stagnant daily, and the prices of used cars are slipping fast. Another factor influencing the market and sale of used cars is that all too many people, who pre-war were normal used car buyers, made easy money during the war and for a period after the war, and dissipated their earnings are are not now able to pay cash for new automobiles, as they could have done had new cars been available in 1946 and 1947, but whose appetites to purchase and own things beyond their means are not yet willing to live within their price class and are refusing to purchase good used cars, but wish to purchase new cars if they can buy them on long enough terms.

The automobile industry, an important factor in the economy of this nation, grew to its size and volume through the marketing of used cars. Anything that tends to hamper the sale of used cars will, in the end, circumscribe the sale of new cars. Therefore, a balanced relationship between the sale of new cars and used cars should always be maintained to insure a healthy operation of this very important industry. The easier you make it possible, through long credit terms or otherwise, for people to buy new cars, the quicker you bring a stalemate on against the sale of used cars, which in turn slows down the manufacture of new cars.

In my opinion, a great harm will be done to the automobile industry, both at manufacturing and retail, to the public and to our national economy, if Regulation W is liberalized to provide 24 months' credit terms to purchasers of new automobiles.

Respectfully,

(Signed) J. N. Mitchell

J. N. Mitchell

This article is protected by copyright and has been removed.

The citation for the original is:

*U.S. News & World Report*, "Business Downturn: Is It Here?: An Interview with Marriner S. Eccles," January 7, 1949.

WRIGHT PATMAN  
FIRST DISTRICT  
STATE OF TEXAS

WASHINGTON ADDRESS:  
1203 HOUSE OFFICE BUILDING

HOME ADDRESS:  
P. O. BOX 868, TEXARKANA, TEXAS

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

January 30, 1949

COMMITTEES:  
BANKING AND CURRENCY  
SMALL BUSINESS OF THE HOUSE  
JOINT COMMITTEE ON THE ECONOMIC REPORT  
JOINT COMMITTEE ON HOUSING

SECRETARY:  
MRS. LUCILLE SPAIN

Honorable Marriner S. Eccles  
Board of Governors  
Federal Reserve System  
Washington 25, D. C.

Dear Marriner:

It is certainly unusual, if not unfair, for you to charge me with going beyond the bounds of fact and being guilty of misrepresentation without making specific charges. If you are attempting to make these serious accusations in a way that it would be almost impossible for me to answer, you have succeeded, since I have made so many statements concerning Regulation W, about which you have written to me, and have made many references to you, although not by name.

In fairness, I think you should be specific and state in what way I have misrepresented you and in what way I have gone beyond bounds of fact. Your charges are very general and, in fact, loose. Certainly you will not deny advocating a recession, although you prefer in some conversations to refer to it as a "re-adjustment".

In your statement appearing in the U. S. News & World Report, you are reported as stating:

"I believe that a deflationary adjustment coming now would not be of long duration or too severe and could be very salutary, whereas, if we now waste our elements of strength to sustain inflationary dislocations, the postponed deflation would be much more serious and of longer duration."

Honorable Marriner S. Eccles  
January 30, 1949  
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You have used the words "deflationary adjustment" instead of "recession", and you have also used the phrase "postponed deflation" instead of "postponed recession or depression". However, your arguments add up to one thing, and that is that you have advocated and worked toward a deflation. I am not questioning your sincerity of purpose and I am assuming that you honestly believe that if we do not have a depression now or recession that it will be postponed as you state and will be more serious later.

Concerning Mr. Henry J. Kaiser, you seem to think there is something sinister in my activities against Regulation W and Mr. Henry J. Kaiser, in view of the fact that Mr. Kaiser is advocating the taking off of Regulation W and I am advocating practically the same thing. I assure you that I am very glad to be on the same side with Mr. Kaiser, a man who has demonstrated his civic-mindedness, patriotism and ability both in time of peace and war.

You make the unequivocal statement in your letter that automobile prices should be lowered. I would like to inquire why should you as a member of the Board of Governors of the Federal Reserve Banks be insisting that automobiles or anything else be lowered in price? It has never been my conception of the Federal Reserve Board that it should be a glorified OPA.

If the Board takes the side of the big three in automobile manufacturing and actually succeeds in crushing and destroying Mr. Kaiser and the other smaller manufacturers, you will postpone the day when a lower priced car will be possible.

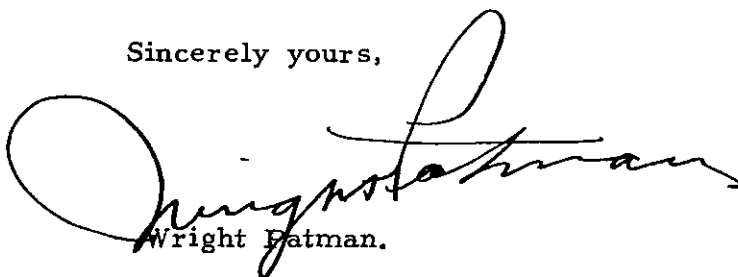
It is true that most of the people, who are protesting against Regulation W, want it eliminated entirely. I believe that a majority and practically all of them would be satisfied if you changed the Regulation as to automobiles, so that a

Honorable Marriner S. Eccles  
January 30, 1949  
Page 3

purchaser will have twenty-four months to pay the remainder due on a car after one-third down instead of eighteen months as at present. It occurs to me that this comparatively small change is too little for the great Federal Reserve Board to seriously argue about.

Again I express the hope that the Board will view this matter without prejudice or bias and make the small change that will satisfy most of those, who are protesting against Regulation W.

Sincerely yours,

A large, stylized handwritten signature in cursive script, which appears to read 'Wright Patman'. The signature is written in dark ink and is positioned below the typed name.

Wright Patman.

(Filer  
to Louis & Edler)  
✓

February 16, 1949.

PERSONAL AND CONFIDENTIAL

Honorable Wright Patman,  
House of Representatives,  
Washington, D. C.

Dear Wright:

You and I have been friends despite our occasional disagreements for too many years to fall out over the highly controversial subject of Regulation W. I do think, however, it ought to be judged on its merits — or demerits in your eyes — and not by injecting personalities. Whether you intended it or not the press has singled me out as the object of your attacks and particularly in ascribing to me, because of your words, statements to the effect that I favor a depression. Now that is so absolutely contrary to the facts that I naturally regard it as unfair. I certainly will deny that I ever advocated a "recession". I have sought on all occasions for some years now to emphasize that the inevitable consequence of inflation is deflation and I have stressed the point that the greater the inflation the more difficult and severe will be the inevitable aftermath, whether you call it deflation, depression, recession, readjustment, or some other word. To say that I have advocated it, however, when I have devoted all my energies to the extent of my abilities in trying to avoid it is just beyond the bounds of fact. The uninformed public can easily be misled if they are told that I, or any other member of this Board, "favors depression".

Let me correct one other point. Of course I do not think that there is anything sinister in your being on the same side with Henry Kaiser whom I have known for a great many more years than you and for whose enterprise and abilities I have very high regard. I have told him, and I mean it, that I want to see him succeed. He faces, as you know, an extremely difficult competitive situation and essentially it is a price



Honorable Wright Patman

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competition. That is the only reason why I have mentioned prices. The Senate Banking and Currency Committee in recommending enactment of consumer credit legislation said that one of its purposes should be "in directing competition along the line of decreasing prices rather than extending excessive credit terms." Such a purpose seems a reasonable one, since it tends to benefit especially the person of moderate or low income in addition to helping all consumers and the country generally. After all, the Congress authorized the Regulation and the President in his economic report has recommended that it be continued. You will agree, I am sure, that the Board must use its best judgment in setting terms and in deciding when to make changes in the terms. There is no "prejudice or bias" so far as I can discover on the part of any member of this Board.

As you know from your long experience and knowledge of the situation this subject is relatively unimportant as compared with the need for arming the Reserve System with adequate usable authority to deal with bank credit at the source.

Let me say again that we have been friends far too long to get overheated about whether 18 months or 24 months is the more appropriate maturity for automobile credits at this time. Anyway, that is the sort of question that can hardly be settled by writing letters.

Best regards.

Sincerely yours,

M. S. Eccles

ET:mm