

**KERNAN ROBSON**  
*REAL ESTATE AND INVESTMENTS*  
DE YOUNG BUILDING  
SAN FRANCISCO

October 7, 1935

Marriner S. Eccles, Esq.  
Chairman, Federal Reserve Board  
Washington, D. C.

Dear Mr. Eccles:

In common with many other members of the Commonwealth Club of San Francisco, I feel much indebted to you for the address which you made before us last Wednesday.

A great deal of discussion of your talk has taken place since that date and a number of problems that confront business men have been discussed from a new point of view since you spoke.

There were, however, a few questions which were not made entirely clear,

First - In the first part of your address you furnished facts that conclusively proved the claim that 1935 is ahead of 1932-33. But is it not true that not enough emphasis was laid upon the fact that never before in our history had the Federal Government taken over definitely three functions?

- (1) The supply of dole or relief by direct or indirect grants on a nation-wide scale.
- (2) The employment in various kinds of ways of millions of people paid from Federal funds who never theretofore had been so paid.
- (3) Through the taking over of mortgages, the Government has entered the financial field of private industry, down from the highest corporation to the lowest homesteader, on a scale that is probably 1/3 of the total normal lending capacity of the private financial system of the country.

Is it not true that these amazing and wonder-stirring acts could not fail to make a change which evidently did not exist within the powers of any other groups, combinations, or associations of any of the 125 million citizens of the nation to make? It was astoundingly obvious that the system under which we were working, on the one hand rich and latent with supplies beyond the luxury needs, could not, of itself, produce

and deliver supplies even to the commonest squalid needs of the country, and thereby was created a situation so obnoxious to common sense that any, or all, the powers of the people were unanimously called into play to make good this important deficiency in the former way of things. Can it therefore be believed that having once failed so wholly and so completely that henceforth, after a brief breathing spell, other and similar ways to those of '32 - '35 will not again be necessary to prevent the recurrence of conditions so offensive to all intelligence and feeling alike? After a brief time if we go back to the old ways will we not have again Mountains of Food and Millions starving?

If this happened once, it can happen again if we try to get back to anything that so seriously failed us with such abrupt dissolution in 1929 - 1935.

Second - In Your figures explaining the net increase of the Federal Debt, if debt it is, from 1932 to 1935, the assets of the Government contra the 29 Billions plus liability, was given as 8 Billions.

What is the break-down for this \$8,000,000,000.? How much of this sum accrued to the Government by reason of the depreciation of the dollar, the silver purchases and other items besides Loans and Mortgages?

Third - It seemed in the third division of your address, the part dealing specifically with the Banking Act, that it is to be more or less assumed that Panic, Depression, Restored Confidence and Recovery were to be the ebb and flow of economic life in the future as in the past and that any basal obviation of this dangerous and destructive situation is not to be looked for, but only that the Government, in its new recognized capacity to create Money and spend in such emergencies, would make a tide when the ebb was on; and then, when Recovery had taken place and people were prosperous again, the Government would, by taxation, fill its dams and be prepared to open the saving flood gates, once Panic and Depression were again desiccating the land.

It seems that this is too unsafe for practical procedure. Moreover, is it not true that, by reason of the heavy tax burdens, especially of Income Taxes as laid upon business and especially by reason of the fact that there have not been created and do not exist adequate Reserves or adequate Media into which to put these Reserves, Industry will always be so impoverished, henceforth, as to make it very doubtful as to whether it can furnish the prosperity needed to re-fill the budgetary coffers of the Government, producing a balanced budget and a surplus enough to enable the Government to step back into Business when Private Industry fails?

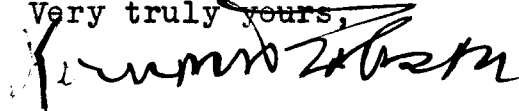
Fourth - The 16th Amendment and the offspring of the 16th Amendment, the subsequent Rules and Regulations and Judicial Decisions, have very definitely put the Government into the major profit partnership with Industry and Business and without corresponding responsibility for losses, thereby creating the Government, or Governments, as the chief employers of Labor. In a definite sense may it not be true that that is, in a major way, one of the causes of Panics?

Now, when the Government goes out of Business on July 1, 1936 have we an adequate, permanent new employer of labor, to-wit: the old industrial System? I doubt whether any seriously thought out program will accept the forecast that it has. Things may run for a year or two or three but, by reason of a lack of adequate Reserves and of the Media in which to place these Reserves, and by reason of the very elaborate and extensive partnership arrangement, which the Government has declared between itself and Business and Industry, is it not probable that the succeeding steps, say from 1936 maybe to 1939, or a shorter period, will be that Business and Industry may be carrying on and supplying the needs of the people, then the underlying adverse factors, above spoken of, and others will begin to come into play, the Government will have to reappear on the scene, this time not only as a partner in profits but as a partner or chief owner of the things producing profits, or be compelled to make a return to the 1929-1935 CWA, PWA, SERA devices now known to us.

I venture to believe that ideas similar to these are in the minds of many thinking men at the present time.

Anything and any light that could be thrown upon these matters will be of great service.

Very truly yours,



KERNAN ROBSON

October 16, 1935.

Mr. Kernan Robson,  
De Young Building,  
San Francisco, California.

Dear Mr. Robson:

This is to acknowledge your letter of October 7th referring to my talk before the Commonwealth Club of San Francisco and raising a series of questions which are both pertinent and interesting. Much as I should like to attempt to answer them in detail, I could not undertake to do so at all adequately within the limits of a letter correspondence, since so many of them raise broad and complicated issues that would require much discussion, if not debate.

I am enclosing a digest of testimony which I gave before the Banking and Currency Committee of the House of Representatives in connection with the Banking Bill of 1935. In this, I think, you will find much that bears upon your questions, and suggests what in general my own views are in reference to them.

Very truly yours,

M. S. Eccles,  
Chairman.

enclosure

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