

CONFIDENTIAL

Specimen

A few notes concerning the address of Governor Marriner S. Eccles of the Board of Governors of the Federal Reserve System at the meeting of the Robert Morris Associates on October 7, 1935, at French Lick, Indiana.

The president of the Associates in introducing Governor Eccles stated that by request of Governor Eccles no transcript was to be made of his remarks. Governor Eccles spoke from the floor (not from the speakers platform) and talked in a most informal manner, not even using notes. He had been in the west and was returning to Washington. He left the convention with officers from the St. Louis Reserve Bank, who drove with him to St. Louis that afternoon.

Governor Eccles began his remarks by stating that the cause of the present depression was due to the continued inflation of prices and finally reached its peak in 1929, being followed by a period of deflation with the banks steadily calling loans, with prices falling and unemployment increasing on every hand. He brought out, as more or less the central theme of his address, the thought that at the present time due to the past conditions which led up to the existing situation, the fundamental principle which should be considered now in credit analyses was that of the stability of the loan. As the head of a system comprising 27 banks he said he had had abundant opportunity to analyze credits. He emphasized his belief that a perfectly sound credit extended during the period when our national income was 80 billion dollars a year, which it reached in 1929, became an unsound credit when the national income dropped to 30 billion dollars a year. He believes that sound credit depends more upon the stability of business than upon anything else. We must, therefore, use our every means in order to build up our business structure.

We should not lose sight of the fact that the great deposit decrease during the banking trouble was due primarily to the collection of loans. The productive capacity of the country was never greater than at the time of the

depression in 1932 and 1933. The primary problem of the depression was not one of production at all but of distribution and the principal problem of distribution is that of money and credit.

The present administration as well as the prior administration was faced with a condition where law and order throughout the land were breaking down. The home owner and the farmer were in dire distress. The great agencies like the National Credit Corporation followed by the Reconstruction Finance Corporation, the Home Owners Loan Corporation, and the Federal Farm Loan Association, followed by the Farm Credit Administration were all started in the previous administration prior to 1932, and these various agencies and others substituted government bonds for the credits of these agencies. It was necessary for the Government to step in and arrest the deflationary process which by 1932 had assumed such alarming proportions. These various agencies stopped credit deflation which was necessary before you could have any credit expansion. It is well to bear in mind that the R.F.C. has been in the process of liquidation for over a year. The extension of credit to the extent of 6 or 7 billion dollars for these agencies stopped a process of destruction and deflation that private bankers could not stop. Governor Eccles spent considerable time in defending the present administration's policies of spending and also defended it against the critics of the various agencies previously mentioned and also showed that the Government's policies were not entirely in spending but also composed in part of lending, such as lending to banks both closed and open and financing industry and farmers in various ways. In speaking of the federal finances, Governor Eccles mentioned that the national budget was not even in balance in 1931 or 1932, prior to the present administration.

Governor Eccles says that if the capitalistic system is to be preserved it must be made profitable for men to engage in business and in various industries; otherwise capital will not be attracted to them. He called attention to the fact that even during the period of depression more than twice as much capital as in any other period was invested in gold mining and in the brewing and distillery businesses just because there existed in them an opportunity for making a profit. The question

of confidence by business men is an effect and not a cause of business conditions. The profit possibility of business is the real cause to be furthered.

Governor Eccles called attention to the holdings of government bonds and mentioned that 80 per cent of them were purchased prior to the present administration. Our excess reserves are made up practically of gold imports amounting to over 2 billion dollars. He emphasized that the dollar is the strongest money in the world today.

Governor Eccles said he had been much interested in an extract on conditions prevailing a long time ago in England compared to these which we have been experiencing in this country, as given in volume 4 of McCauley's History of England, where there appears a statement with regard to the national debt and the difficulties incident to its repayment. Governor Eccles stated that this reference to the conditions which prevailed in England at that time gives us confidence in our national debt which is increasing so rapidly.

The important thing to consider according to Governor Eccles is not so much the question of the Federal debt as that of the national income. We must not be content with conditions which allow our factories to remain idle and our country to have large numbers of unemployed men. When this kind of a problem is too much for private capital to solve, then the federal government must step into the picture and spend the necessary money to do it.

Governor Eccles said he was not especially alarmed by the present size of the Government debt, nor would he be if it were increased to forty billions and compared our debt to that of the other capitalistic nations - the largest of which is Great Britain - and said that the net government debt of the United States, after the deduction of Treasury balances, stabilization fund, and other assets, was about 38 per cent of the national income; whereas in the case of Great Britain, the debt was 158 per cent of their national income. The debt of all public bodies - that is, the net central debt plus debts of all other civil divisions - is 78 per cent of the national income of the United States and 194 per cent in the case of Great Britain. In round numbers, the debt of all public bodies in this country is 37 billions; if this

was as large, in relation to our national income as the British public debt is to theirs, it would be 37 billions. These figures in regard to Great Britain are exclusive of their war debt. The national income of the United States, Governor Eccles stated had recovered from its low of 40 billions in 1932 to around 50 or 55 billions in 1934. He spoke about an unbalanced budget, and emphasized that a budget could only be balanced from the national income and that only through the increasing of the national income and the increasing of tax receipts would the budget deficit be eliminated. He said that the budget in his opinion would be balanced in the near future.

Governor Eccles emphasized that credit men must look at their job from the standpoint of the economy as a whole. The banks must be in a position to provide types of credit that may be required in the communities where they are located. Banks must not dictate what the people must do. He suggested that it would be an interesting thing for the banks to analyze the types of credit needed in the various communities.

He said that of the 10 billions of savings and time deposits in this country, 3 billions were held by the commercial banks; and that the commercial banks as holders of these deposits would have to give serious consideration to the investment of a considerable part of these funds in mortgage or long term investments. He said the only other alternative was to continue to buy heavily of Government bonds and let the Government do the financing of mortgages or else see the large insurance companies of the country come into the various communities and take away the cream of the mortgages.

Governor Eccles emphasized at length the relationship between the Treasury and the federal reserve system with the deduction that the relationship is very close; it is bound to be so always and this has been so in the case of the other great central banks in the countries where they are located. He referred to a recent statement of Viscount Snowden when he said that the Bank of England is subjected to the will of the Treasury. He believes that the will of the federal reserve system always could be minimized or invalidated by the Treasury through the operations of its stabilization fund, plus the possible issue of 3 billions of currency or even through a further devaluation of the dollar.

Governor Eccles spoke slowly and deliberately; clearly and forcefully; and his informality was liked. He appeared to impress favorably a large majority of those present. From inquiries the deduction might be made that perhaps his listeners were not convinced entirely with his logic or conclusions but they certainly were given much food for thought. Probably many of the subjects to which he referred were relatively new to many in his audience, being matters which to a large extent had not come to their immediate attention. He presented the case of the present administration and of the the board of governors of the sytem in a strong way.