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Washington, D. C.
January 19, 1939.

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

My dear Governor Eccles:

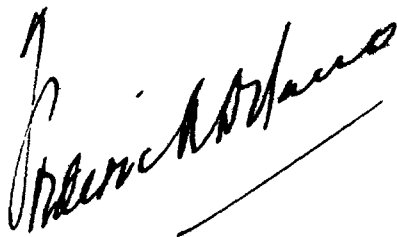
I am enclosing herewith a rough draft
of a statement I have dictated this morning
and which I am sending to you without re-
consideration or correction. I do not know
whether any of the suggestions I have made
will be useful to you, but I hope they may be.

Sincerely yours,

P.S.

This printed leaflet came
in since I dictated the state-
ment, and illustrates my point
in regard to the attitude of
banks and bankers.

F.A.D.



Encl.

Draft statement on Recent Editorial Comments on "Government Spending".

I have before me two rather interesting comments which are worth noting, - one an editorial from the WASHINGTON POST of January 17, 1939, entitled "80 Billions or Bust"; the other, an interesting comment from the WASHINGTON DAILY NEWS, by commentator Raymond Clapper, dated January 18, 1939, entitled "Duponts Again". Of these, the first mentioned is an editorial denouncing Mr. Eccles' views and supporting those of Senator Byrd. It bears evidence of having been prepared in the office of the Brookings Institute, and although it is very well presented, it certainly fails to appreciate Mr. Eccles' point. No one would be happier than Governor Eccles to see the general spending by big corporations and so relieve the Government of the very heavy load of keeping the machinery going. No intelligent person speaks of the present spending program of the Government as "pump priming". The day of pump priming has gone by, and those who have tried to understand the situation realize that it is much more serious than simply a matter of priming the pump. It is a problem of getting sufficient national income to run the Nation. An immense amount has been written by economists and others and it ought to be apparent to any serious-minded man that it is not something that can be disposed of by "calling names" or ridiculing the efforts that are being made.

I carry around in my pocket a statement of what happened in the building industry in the boom years of '20 to '29. In that industry alone the total expenditures went up to the fantastic total of fourteen

billions, of which the Federal Government contributed less than half a billion. Much of this bulge in building was purely speculative and obviously could not last indefinitely; and it, perhaps more than any other single industry, made the most fantastic collapse and brought down with it many other industries, - among others and certainly not the least, the railroad industry.

The problem ever since 1932 has been how to restore business to something like normal. At first it was the thought of many business men that all they needed was the expenditure of a ^b billion or two by the Federal Government and the rest would pick up the load, but in spite of the fact that the Government has increased its expenditures on building and loan to $2\frac{1}{2}$ billions, it has not been sufficient to restore the status quo ante. When we look for causes, we find among them that many industrialists, and notably the bankers, have become so timid that they do not dare venture into anything that is new. There is a notable exception in the case of the Duponts about whom Raymond Clapper speaks. He points out in his very interesting article that despite the hard times, the Duponts are at this moment beginning the construction of an 8-million dollar plant at Seaford, Delaware, to manufacture a new product, "Nylon", which is to displace silk and perhaps even cotton and other fibers. Here is a concern that has "taken the rap" along with others, and yet at the present time are employing 52,000 men as against 42,000 at the peak of Hoover prosperity. How does it happen that this institution is such an outstanding example of

looking at the problem at a totally different angle than others? There are perhaps several different answers:

1. I would say that the large financiers are perhaps more responsible for the exaggerated bulge in business in the years '24 to '29 than any other people. In the railroad service, instead of seeing the handwriting on the wall and the effect of motor competition, they increased the capital ventured in that enterprise by some 9 billions of dollars, of which only about half could be regarded as expenditures likely to increase the volume of business or diminish the cost of doing it. The financiers who did this were more interested in the profits of underwriting than they were in benefiting the railroad industry.

2. Another folly was lending of extravagant sums to Germany, to other European nations, to South American nations, and to cities everywhere on loans which were attractive only because they carried a rate of interest which indicated on the face of it that they were insecure and hazardous. The losses in this class of loans alone amounted to two-thirds of the entire increase in expenses made by the Federal Government in the last eight years.

3. Part of the trouble can perhaps be explained by change in policies adopted by the Congress, some of which have been far-reaching in consequences:

- a) The shutting off of immigration and thereby reducing consumption;
- b) The shutting off by the banks, with the authority of the Federal

Reserve law, of paying interest on deposits. This resulted in an enormous savings to the banks but tended to make them less interested in venturing on new developments. Prior to the passage of the amended Federal Reserve Act, it was common for banks in the North to pay 2 and 3% interest

on deposits, and in the South and Southwest as high as 4 and 6%. A bank that paid fantastic rates of interest like this on deposit money was compelled to seek investments in order to make earnings. They ventured to invest in "wild cat" enterprises which sometimes proved very profitable, but they also ventured in financing foreign countries whose securities they did not study, and then got rid of the bonds by selling them at a profit to the "dear public".

However, these foreign loans made a market for our goods.

c) Another thing which was done which ought to be considered:

That is the changed methods of organized business in dealing with depressions.

This is known as the "budgeting of expenditures". In old days, a man running a railroad or factory would watch his business and if it fell off a little, he would not at once reduce wages [or] dismiss a lot of his employees because he regarded that it was important to keep a good staff and not to do anything to alarm public opinion. The attitude today is almost the reverse of that. As soon as there is any drop-off in business, expenses are reduced to fully meet the reduction in earnings, and the effect of this has frequently been to accentuate and accelerate the downward spin. A few companies, a very few, (but apparently the Dupont concerns lead the list), are those who, when business is dropping off, seek to increase their income rather than to reduce their outgo. Some of them reduce prices and try to increase sales; others put on special advertising campaigns to increase their sales; still others do what the Duponts are doing through their research work, - increase their production and their markets either by making a better article for the same price or the same article for a less price.

In closing, one thing I reiterate: These are times for intelligent criticism. Men of single-track mind, like Senator Byrd, do not help us. The bitter "enders" in the financial world who say they will not do a thing until the Government stops criticizing crooked business and dishonest finance. They say that it is the general public that is scared and do not reflect that they themselves have done more than anybody else to frighten them.

Frederic A. Delano

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