THE WHITE HOUSE
WASHINGTON

April 17, 1937

MEMORANDUM FOR CHAIRMAN ECCLES

For your information.

M. H. McINTYRE
Assistant Secretary
to the President

Enclosures

COPY

April 17, 1937

My dear Mr. Gillespie:

Thank you very much for your interesting letter of April thirteenth.

It is delightful to get other people's views. Note that I do not use your own word "outsiders" because I rather have a feeling that none of us Americans can be so classified with respect to the problems which affect all of us. I feel this way especially about persons who are interested enough to offer constructive criticism.

I am taking the liberty of sending your letter over to Mr. Eccles in confidence.

Sincerely yours,

M. H. McINTYRE
Assistant Secretary
to the President

J. D. Gillespie, Esq.,
Magnolia Building,
Dallas,
Texas.

mhm/k/tmb

J. D. GILLESPIE BOND CORPORATION

PAID IN CAPITAL $250,000.00

MAGNOLIA BUILDING

DALLAS, TEXAS

April 13, 1937

Hon. M. H. McIntyre,
Assistant Secretary to the President,
The White House,
Washington, D. C.

Dear Mr. McIntyre:

Thanks for your letter of the 7th. I did not expect any reply to my letter to the President, but just wanted to add my letter of appreciation to the millions of others he is no doubt getting from other United States citizens.

It seems to me that too many people in high places are giving the President mere "lip service". They do not seem to realize that this country is undergoing a social and economic revolution, and the only way I know to handle a revolution is with the sword or with the money bags--and we certainly do not want the sword.

Therefore, it behooves everybody to see that the Government credit is kept unquestioned, even if the debt should go to forty billion dollars--which I hope it doesn't. If Government credit should "crack up" and people lose faith in the Government, what will we use for money? With all the gold locked up, and there being only about eleven billion dollars worth against bank deposits and outstanding currency around sixty-six billions, it looks to me like the people in the cities of the country would soon starve. Credit is like the delicate works in a watch. It doesn't take much to break it up.

The value of Government bonds should not change except as the demand for money goes up or down, which would be a very slight fluctuation each week or month. They are just as good today as they were yesterday and they will be just as good tomorrow.

With these views, it is needless to say that I was greatly surprised and I guess disillusioned when the Federal Reserve Board raised the reserve requirements of banks and caused a bad crash in the Government bond market, and played right into the hands of those who have been withholding their funds from investment since the first of the year. If there had been a great demand for credit I could have understood their action, but there had not, and there is not at this time. It seems to me that they were simply setting up a straw man at which to shoot.

If speculators were using too much credit to buy listed securities, the Board could have raised the margin requirements from 55% to about 75% and checked that.

Furthermore, the Federal Reserve Bank certainly does not need any more funds, as they have over six billions deposits and only six millions loans, and so far as anybody can see, not much chance to increase their loans.

That being the case, it looks like the whole procedure was for the purpose of raising interest rates for the benefit of investors. In fact, Mr. Eccles in his public statement admitted that the control of credit would not control inflation, but that it was the demand for armaments and so forth that would cause it, and it would take other powers of the Government to stop it. So if the Federal Reserve Board's plan of increasing reserves would not stop inflation, what was the use of putting it on and making many people who had faith in the Government and had bought Government bonds take a stiff loss?

Banks and insurance companies cannot expect to get as high a return for money as they formerly did, because the Government has come in through the Banking Act and relieved them of interest on balances, which they never could have done themselves. And inasmuch as the banks formerly paid from 2% to 4% for money, a Government bond at this time yielding 2½% is about as profitable as one yielding 4% to 6% in former years. Insurance companies, of course, are using the old mortality tables of many years ago (when public health was not half as good as it is now) and have their premiums loaded with enough charges to take care of a much lower rate than they formerly received.

If the Federal Reserve Board is going to try to regulate the long-time money rate, I think they ought to tell us what rate they have in mind so that all citizens would have an equal chance.

I don't know, Mr. McIntyre, why I should be "unloading" these views on you, except that my friend T. W. Davidson, who is now Federal District Judge here, sometime ago told me that you were just a regular everyday American citizen.

Maybe, also, those who discuss the financial affairs of the Government might like--as a matter of curiosity--to get an outsider's views.

Sincerely yours,

J D Gillespie

JDG:W