THE WHITE HOUSE
WASHINGTON

November 1, 1937

MEMORANDUM FOR HONORABLE MARRINER S. ECCLES:
Chairman, Federal Reserve System.

Will you be good enough to let me have a suggestion as to appropriate reply to the attached letter from Mr. Wendell P. Barker?

M. H. McIntyre

M. H. McINTYRE
Secretary to the President

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 6, 1937.

To Dr. Parry

From Mr. Thurston

Subject:

The attached speaks for itself. The Chairman suggested that I might refer this to you for a suggested reply for the President's signature.

Attachment.

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 11, 1937

To Mr. Thurston

Subject:

From Mr. Parry

LEP

Never having undertaken before to prepare a letter for anyone as exalted as the President of the United States, I do not know quite how to go about it. Perhaps you may find the attached suggestion of some use to you.

November 11, 1937
CEP

DRAFT

I wish to thank you for your letter of October 16, 1937, in which you express the opinion that the 55 percent margin requirement contributed much to the decline in stock prices during the last few months, and report that experience similar to your own has led people of your acquaintance to turn against the Administration.

The purpose of the 55 percent requirement to which you refer was to prevent, as stated in the law, the excessive use of credit for purchasing or carrying securities, and I am informed that it had a good deal to do with preventing speculation on credit during recent years from growing to anything like the proportions that characterized the period which preceded and laid the basis for the long depression. If this is true, the 55 percent requirement was quite clearly in the public interest, and incidentally it must have prevented many people from subjecting themselves to market risks that they could not personally afford to take. That this requirement has been replaced, since your letter was written, by a lower requirement, testifies to the belief of the responsible authorities that in present circumstances the public interest will be served by a lower requirement.

I am also informed, however, that your letter appears to manifest some misunderstanding of the nature of the requirement to which you refer. You mention certain bank loans negotiated for the purpose of obtaining funds for living expenses and state that the collateral for these loans consisted of insurance stocks. If you should care to look into the matter further you would find that the margin requirements prescribed by the Board of Governors of the Federal Reserve System do not apply, and never have applied, to such loans, but only to loans for the purpose of purchasing or carrying securities.

The problem of protecting the individual investor and the problem of bringing speculation under appropriate control are related problems, but they are not the same problem. It will take time to solve them, and I trust that the responsible authorities will continue, notwithstanding your present feeling on the subject, to have your support in their efforts to this end.

Very truly yours,

November 12, 1937.

MEMORANDUM:

TO - Mr. McIntyre

FROM - Chairman Eccles

Returned herewith is the letter from Mr. Wendell P. Barker and a suggested appropriate reply for the President to send.

Attachment.

ET:b

Mr. Wendell P. Barker,
Counselor at Law,
59 Broadway,
New York City.

My dear Mr. Barker:

Your letter of October 16th is all the more distressing because you have suffered so heavily while engaged in public service. I need not remind you that those who, like yourself, are subjected to large personal sacrifices while in public positions make a strong appeal to my sympathies as well as to my admiration.

May I not remind you, however, that Congress passed the Securities Exchange Act of 1934 as a safeguard against another such stock market debacle as we had in 1929. The law placed upon the Board of Governors of the Federal Reserve System--not upon the Securities and Exchange Commission--the responsibility for determining margin requirements with a view to preventing the excessive use of credit for stock speculation. The effect of the margin requirements has been to curb stock speculation built upon credit and to prevent many from taking risks in the stock market which they could not personally afford. I am sure you will agree that this was in the public interest.

There is nothing in the law or the regulations which affects a bank loan such as the one made to you, as you describe it. In other words, the margins of which you complain apply only to loans made for the purpose of buying listed stocks. They do not apply to unlisted stocks or to bonds or to any loan a bank may make to you or to anybody else for business needs, for living expenses or for any other purpose except buying stocks listed on the stock exchanges. It was within the discretion of the bank to make you the loans you mention with or without collateral. The margin and the regulations were not and are not applicable.

There is, of course, no feasible way for the Government to guarantee owners of stocks against or to redress misfortunes such as your own. Even so, I quite understand your feelings and those of others which your letter reflects.

Let me add my earnest hope that your personal fortunes may be improved now that you have resumed private practice, and that you may come to feel that the sacrifices which you have made have not been in vain.

Sincerely yours,