

BENJAMIN F. HAAS  
175 FIFTH AVENUE  
NEW YORK CITY

April 14, 1943

Mr. Marriner Eccles  
Chairman of the Board  
Federal Reserve Bank  
Washington, D. C.

Dear Sir:-

Enclosed you will find an article which was  
sent to Secretary of the Treasury Henry Morgenthau Jr.

Would appreciate having your comments on  
same.

Very truly yours,

*Benjamin F. Haas*

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APR 15 1943  
FEDERAL RESERVE BANK  
ST. LOUIS, MISSOURI

## THE DANGER OF THE PRESENT FINANCIAL SITUATION

It is unfortunate that the issues of the Ruml plan and the Bankhead bill and more recently the plan of a stable international currency divert the attention of the public from the principal problem before us, namely from the unchecked course of inflation.

The buying power of the dollar by necessity decreases every day as long as the inflationary gap of the budget is not closed but constantly widening.

While England and Canada have increased taxation and borrowing from the public to such an extent that no inflationary gap of dangerous proportions exists, there is no doubt that our system of taxation and the extent of our borrowing from the people and the effects are obvious for all who have experienced a growing inflation. The moment is not far distant when the dire development will reach the danger zone of threatening essential production with a breakdown. It is imperative now to emphasize that a system of price regulation without the firm basis of a stable dollar does more harm than good and will never achieve the hoped for effect of stemming the tide of inflation.

The familiar succession of events under price regulation simply is the following:

As long as sufficient stocks are at hand, the consumer lives in a fools paradise. But since stocks cannot be replenished at the prevailing prices, since not all factors implied in production can be regulated, production becomes largely unprofitable or too risky, lags or ceases altogether, while the rest of the stocks are sucked up by the black markets. Rationing then is the second step resorted to and helps for a while until, in the end, prices have to give way to the ever increasing pressure of the inflationary newly created money now exercised against a much smaller supply.

Even when our government would have included wages and farm products in the price regulation from the start, the situation would not be much better in view of the constant depreciation of the buying power of the dollar due to the creation of new money.

Financial history teaches that all inflations are alike, in particular in that every inflation is considered by some as different from all others, therefore justifying entirely futile attempts to cure some unimportant symptoms, while the main cancer should remain untouched, not to create the painful sensations experienced in a radical operation. We recommend such operation.

What is necessary above all - besides a withholding tax - is the launching of public loans of an amount of 35 to 40 Billion Dollars to be subscribed by the public itself.

Such large loans cannot be obtained from the public under terms dictated by the government. Quite in the contrary, the government has to offer terms at which the investor is inclined to lend the money.

That it is not possible to reach the investor directly must be denied on the basis of experience abroad made under far less favorable circumstances. In addition, when a sufficient rate of interest is offered and guaranteed for a sufficient number of years, the Life Insurance Companies and other institutions can do their shares in offering long term contracts under attractive conditions so as to reach those indirectly who would not be prospective direct subscribers of the loans.

The present offerings of the government are wholly unsuited for the purpose to absorb the newly created money to the desired extent.

The terms which the government has to offer will become less and less favorable the longer the operation is delayed. A month ago  $3\frac{1}{2}\%$  might have sufficed. Today the interest rate must be 4%. In a month from now it may have to be still higher. At the present moment we can still score success with a loan whose taxability is clearly defined and limited by law. In half a year from now only a tax free loan will yield the much higher sums needed. In a year from now, if inflation goes on unchecked, only a capital levy of staggering and yet undreamed of proportions will prevent chaos. There is no time to lose.

DR. FELIX BERNSTEIN

Professor at New York University

Formerly of University of Goettingen.

April 19, 1943.

Mr. Benjamin F. Haas,  
175 Fifth Avenue,  
New York City.

Dear Mr. Haas:

This is to acknowledge your letter of April 14 enclosing a copy of an article which you have sent to the Secretary of the Treasury. With a good deal of the factual material, I would of course agree, but the conclusion that high interest rates are necessary or desirable to insure the success of the financing is not, in my opinion, correct.

A summary statement of my own general views in regard to the financing program is contained in a radio talk I gave a few evenings ago, copy of which I enclose for your information.

Sincerely yours,

M. S. Eccles,  
Chairman.

Enclosure

 ET:b