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NEW YORK 22, N. Y.

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Hon. Marriner Eccles, Chairman  
Federal Reserve Board,  
New York, N. Y.

My dear Mr. Eccles:

I noticed with much interest your statement in reference to inflation.

The government is the principal inflationist. It started, as you know, when we put into effect a partial price control leaving out rents and wages. Later on rents were included but wages never have been.

So far as I can remember, you were the only one besides myself who favored what might have been a control of inflation, and that was price control over everything including wages, with a tax program much heavier than anything put into effect which would have cut down borrowing. At the same time, greater appeal should have been made to private lenders rather than banks, trust companies and insurance companies.

There is no central authority in government that has handled this inflationary problem. Congress reduces taxes \$6,000,000,000 without any rhyme or reason that I can see. The State Department, the Treasury and other officials negotiate loans without finding out what our productive capacity is and from what source the borrowers are going to buy the products they need.

So far as I have seen, there is no schedule of what, for instance, the English want, or for what purpose they are going to use that money. I presume further applications for loans will be made to the Bank. At present the Import and Export Bank are lending various sums of money. All of these borrowers want to buy things. The only place where manufactured products and many raw ones can be bought is in the United States.

How can you control a rise in prices or inflation when you keep piling buying power into a

Mr. Eccles.

market bare of goods? Even municipalities and states are studying large programs of expansion in a limited market. Take the question of housing alone. The veterans had a borrowing capacity of \$48. billions (guaranteed by the Government) which was limited to two years' time. Happily we were able to get that extended to ten years. The veterans' borrowing capacity is much larger than the Government guarantee - easily double.

I have never seen, nor do I think anybody knows what this country owes - what its direct and indirect obligations are.

It is unfortunate that the arrangements the English and Americans have placed before the two countries places England in a position where she has lost her pride and has not been given any confidence. I believe that with a proper exposition of the fact, England could have been shown that she needed much less than we are talking about giving her, and a large part of it, if not all, could have been obtained by the sale or agreement on our part to take large quantities of her excess materials. If England is unable to buy things here, which she will not be able to do for some time, she must go into other markets of the world to get what she wants and to use her dollars. When those countries have the dollars and cannot buy what they want, won't dollars go at discount? The only way to keep dollars from selling at discount is to export gold.

How long do you think the American people are going to continue to have confidence in our financial structure? Of course there is no way of expressing themselves except by trying to get their money into all kinds of things. With the government making money worth less all the time and decreasing buying power, how can you stop this flight into things?

There is just one thing that can save the situation and that is to produce things faster than we are printing money. I believe we can do a pretty good job.

Do not the State and Treasury Departments and our people who promise, lend and give things to everybody ever consult with the Federal Reserve Bank before they do?

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Mr. Eccles.

I am now beginning to hear many complaints about how foreigners can get money, and it is presumed they will be able to buy things with it, and the Americans will have to stand in line.

Confidence in our government is not increasing. The present condition is one which clear observers like you have foreseen but were unable to convince others about.

As to speculation, that is only a thermometer.

Another thing about speculation, concerning which I have known something for fifty-five years, I have yet to see the amateur who made any money finally, and but few professionals.

Sincerely yours,

*Benedict M. Baugh*