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January 16, 1939

The Honorable Marriner S. Eccles  
Chairman, Federal Reserve Board  
Washington, D. C.

Dear Mr. Eccles:

Thank you for your letter of January 6th, enclosing copies of your speeches made at Atlantic City and at New York. I didn't want to answer until I had had time to study them.

I am pretty much in accord with your analysis of the causes of the 1937 slump. I agree with you that the responsibility for these developments must be shared by business, organized labor and the government. So far as we personally are concerned, we resisted higher price schedules in our industry in 1937. In fact, we issued LOWER schedules for the territory in which we operate, and tried to sell the rest of the industry on our line of reasoning. We contended that the theory of "making hay while the sun shines", if carried to extremes, is a short-sighted policy which always has its aftermath. We pointed out that on the volume of business we were all doing, we could afford to reduce our prices, thereby enabling the farmers either to buy more fertilizer or to make their dollars go further elsewhere. We were not advocating this at the expense of our labor, for we were paying higher wages than in 1929. We succeeded in our efforts. However, in 1938 the volume of business slumped and prices went too low in the Fall season.

Organized labor was unreasonable in its demands, particularly in the building and railroad fields. As you point out, on page 21, high hourly wages on paper, without any jobs, are meaningless. I guess it is only natural that building tradesmen, having suffered a protracted period of scarcely ANY earnings, were anxious to "make hay while the sun shone", but doesn't this also explain why the steel industry raised its prices more than enough to off-set its increased labor costs? Remember that The U. S. Steel Corporation alone lost over 22 million dollars during the depression of 1930-1934.

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It seems to me that the whole problem harks back to one single trait in human nature, SELFISHNESS. Business men were selfish in wanting to regain their losses too fast, labor the same, and the same even holds true for the organized agricultural interests.

The government (represented by politicians) was equally selfish. What greater crime can be committed than to set class against class? And yet the President of the United States not only permitted this to be done by such "statesmen" as Ickes and Jackson, BUT ACTUALLY ENGAGED IN IT HIMSELF!! At a time when the whole nation needed every ounce of good will that could be mustered, every bit of whole-hearted cooperation available, these POLITICIANS were hurling epithets over the radio such as "economic royalists, money changers in the temple, chiselers," etc., etc., ad nauseum. If they were really sincere in trying to do GOOD for this country, they would have refrained from such destructive outbursts and concentrated on the job at hand, in a constructive way. No doubt they WERE irritated at those who threw obstacles in their path, but acting like a spoiled, petulant child isn't going to help get ANY job done. Consequently, they have alienated many sober thinking people in this country who were willing to "go along" to whatever extent their consciences would permit them. The politicians then belatedly realizing that business was suffering an inferiority complex, the result of blast after blast, asked for "cooperation." Could you honestly expect "cooperation" from a man you had just kicked in the pants and called eighteen different kinds of so-and-sos? Business was hurt and mad, and still is, to some extent. Mr. Roosevelt decries the narrowness, intolerance and bigotry of Hitler, but he uses the same kind of tactics against his opponents who honestly disagree with him. He does not, of course, go to quite such extremes, and he had better not try, if I am any judge of the temper of a goodly percentage of our population.

I am not, of course, condemning you for what other officials have done. So far as I can find out, you have limited yourself to the powers of persuasion, and this is the only honest, democratic method of procedure.

But to get back to your arguments; "compensatory spending" may be justifiable, up to a certain point. Of course, it is nothing new. The Greeks tried it. They had their P.W.A. I believe that we needed some in 1933. I further believe that the only reason the results weren't better is because the Administration attempted too many reforms in too short a space of time, coincident with its attempts toward recovery. Reform and recovery are opposing forces, in most instances. If the

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most important reforms had been instituted first, with time permitted to adjust our economy to them, then we would have been in better shape to withstand the shock of other reforms. EVERY REFORM IS SOMEWHAT OF A SHOCK, necessitating adjustment of policies of all concerned. In my opinion, the FDIC was one of the first steps needed, to re-establish confidence in our banking system. The changes in types of collateral, against which Federal Reserve Banks could loan money, to include assets with intrinsic values but which were not liquid, was also a step in the right direction. The divorcement of affiliated investment houses from the banks was needed. The general idea of the S.E.C. was good, although I am inclined to believe that they have perhaps gone to extremes as regards directors' responsibilities in large corporations. I realize that the old set-up was too lax, and it is just a matter of the degree of responsibility. I have often thought, too, that it would be a good idea to require banks to show the percentage of their loan accounts which represented renewals and/or past due paper, in their published statements. If some method could be devised to give a depositor a clear, true picture of the status of loans made by the bank, it would be helpful in deciding with which bank you wanted to deposit your funds. We were fortunate enough not to lose money in any closed banks, but perhaps we asked our bankers more questions about these things than most people did. Ordinarily this sort of information is only available to the directors of the banks, but it should be made available to every depositor who wants to know. Perhaps the reason our banks didn't hesitate to give us the information was because they were in good shape.

Naturally, relief had to be administered in 1933 and for some time thereafter, but I do believe that we would not now be faced with near the problem of unemployment we have today, had it not been for additional reforms, some attempted and some put through. The Court Reorganization Bill no doubt had some merit, (most attorneys admit that it did), but it certainly was ill-timed, so far as its effect on business was concerned. To the average citizen it looked as though the Administration wanted to change the rules of the game, just because it had been licked by the Supreme Court a few times. Of course, the Administration finally got most of what it wanted anyway, which was liberalization of the Supreme Court, and it may not have gotten this so soon, had it not been for the pressure of the Bill. This can be scored as a political victory as far as its effect on the Supreme Court is concerned, but a political defeat as far as its effect on business is concerned.

I think the worst mistake in timing was the enactment of the Wagner Bill. If the politicians had been a little patient,

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they would soon have witnessed a natural (supply and demand) increase in wages. Instead, they again put the cart before the horse. Did you ever hear of a generally low wage scale when business was good? Neither have I. If there were exceptions to the rule, they should have been dealt with AS exceptions. You can't artificially force wages up, any more than you can the price of rubber, as England tried, or coffee, as Brazil tried, without getting into trouble. Of course, you can do it for awhile, but just as other countries began producing rubber and coffee, (and cotton, in answer to our attempts there), employers are forced to install more and more labor-saving machinery, if they can't get labor at prices they can afford to pay. I realize that this argument ignores the human side of the labor question, but I believe that the GREAT MAJORITY of employers today recognize this factor and try to take it into account. I KNOW that this is true of almost every employer I am personally acquainted with.

The administration of the Wagner Act has admittedly been bad. Laborers whom I know personally were told that "President Roosevelt wants you to organize." They were asked, BY A REPRESENTATIVE OF THE N.L.R.B., if they weren't being mistreated, if the Company they were working for wasn't unfair, etc. If that isn't stirring up trouble, where none existed before, then I'm all wet. This "investigator" was disappointed when he found that the great majority of employees of this plant were well satisfied with their treatment and with the wages they were receiving.

What do you think your reaction would have been, had you been an employer, when the sit-down strikes were going on? And yet the Administration professes not to understand why business didn't whoop it up and go after more sales. It couldn't be the ostrich, with his head in the sand, could it?

*It did precisely*

The reason I feel that our reforms offset our recovery attempts is because I have studied some of Canada's production figures. Canada recovered from the 1930-1934 slump faster and further than we did, without nearly so many reforms. Many other countries did, too, but I select Canada because her world situation and economy are similar to ours. Of course, she had a steady market in Britain, and we helped her gold mining industry immensely with our silly policy of purchasing gold at outlandish prices. But I believe she would have shown relatively as good, or better gains, without these two factors. (Incidentally, I approve of Mr. Hull's efforts to extend our foreign trade. I think he is doing a splendid job, considering the handicaps, which he is confronted with)

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And by the way, why are we paying more than the world market price for gold? Is it so that we will have the gold to back a tremendous issue of currency when "pay day" comes? You mention the problem of huge dollar credits in this country, owned by foreigners. Why wouldn't they invest over here? It isn't all because of fear of their own national currencies. A good part of it is due to the fact that they can buy American investments at a big discount, in terms of gold.

You point out that the major debt of this country has been transferred from private enterprise to the government, and at lower interest rates. This is true, but I contend that we had too great a total of private debt in the United States in 1928-1929 and we have too great a public debt today. Debt does not necessarily create wealth. It only creates wealth when used in production of goods, which obviously is not the case with public debt, or at least should not be, as you yourself admit. (I am talking now of relief and government competition with industry, not loans to industry.) A good proportion of our private debt in 1929 was created for SPECULATION, and was therefore not creating real wealth. Speculation has its place in our economy, but like everything else, it is the DEGREE of speculation which makes or breaks us. When elevator boys and clerks were dabbling in stocks, how could we expect anything but a crash? Business men, who could analyze a financial statement, still lost their shirts because they failed to realize the difference between debt created for production and debt created for speculation.

The difference between the Depression of 1930-1934 and the present one is that the former was caused by over-speculation and over-optimism, whereas the present one was caused, I think, mainly by the factors you mention. However, while you mention the speculation in inventories in 1936 and touch upon the upward trend in prices, you didn't bring out the fact that many buyers of inventories felt forced to speculate. They were afraid their suppliers were going to be tied up in strikes and they wouldn't be able to get the raw materials, services, etc., they needed. I know this was true in many instances. Furthermore, the increased price trend was due, in no small degree, to increased labor costs, and it was only natural that any company which had, or could raise, the money gambled to some extent on building up its inventories, as a matter of self-protection.

If the Government had taken a stronger position on the sit-down strikes, and had passed the word along to the labor unions that wages were in some instances getting out of line, there would

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have been less speculation on inventories. Most manufacturers don't LIKE to speculate on buying and only do it as a defensive measure. The Government MAY have hinted to unions that wage scales were advancing too rapidly, but if they did, then it shows short-sightedness on the part of the unions for not paying attention to the Government. It shows that they are not yet ready to assume the responsibility which goes with their power, and CERTAINLY neither the unions nor the Government should have tolerated the sit-downs. If Ex-Governor Murphy is correct in stating that he was faced "with a situation and not a theory" then whose fault was it that such a "situation" existed?

I can't bring myself to agree with your viewpoint on deficit-spending, beyond the absolute emergency stage. Of course, if you want to create a "permanent emergency", that is something different. Many of the agencies created in the name of "emergency" in 1933 bid fair to be with us as permanent fixtures, and I guess this is one of the weaknesses of the democratic system. But it NEED NOT be and WOULD NOT be if we had statesmen instead of politicians, both in Congress AND THE ADMINISTRATION.

As pointed out by David Lawrence, it is interesting to note that despite increased expense for the usual operations of the government, (which undoubtedly could be cut without hurting anybody but the political job-holders involved), the 1940 budget would just about balance, were it not for the items called "social welfare." Don't we have the cart before the horse again? Couldn't industry provide the "social welfare" with real, productive jobs, if let alone? I think so.

I don't believe that our situation is comparable to that of Great Britain, as you indicate, (starting on page 12 of your New York speech). Britain has come a whole lot nearer keeping her budget balanced than we have, so that if we were on a "pay as you go" basis, our taxes would probably be a higher percentage of our national income than hers. A good portion of Britain's "national income" in the past few years has been derived from the manufacture and sale of armament, munitions, etc., which do NOT produce wealth. (They are designed to destroy it.) AND, we haven't heard the end of the British story yet. A few years in a nation's life don't tell the story. And WHY brag just because we don't happen to have the highest tax rate of any major nation? We could really brag, with justification, if we had the LOWEST rate, and were still living within our income.

You don't seem to consider that Britain did not experience any year near the speculative boom in 1928-1929 that we did.

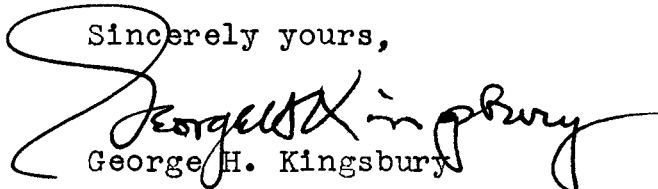
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Therefore, her 1929 income was not as much greater than her "normal" income as ours was, so she didn't have as far to go to show a percentage increase in the following years. The selection of 1929 as a year for comparative purposes is unfortunate, unless done purposely to prove a point which won't hold water. 1929 was not a "normal" year in the United States, so far as national income was concerned, and as pointed out, a good percentage of our "income" that year was derived from speculation.

How do you propose to raise our national income to 88,000,000,000 dollars? By speculation, by printing nice, new "money", or by presto-chango? Of course, the tax load would be lightened (assuming that we didn't increase our expenditures) but the purchasing power of a dollar would be lowered, with a consequent shrinkage in the value of life insurance and savings accounts, bonds, etc. I am for raising the national income, if the income is derived from a natural increase in production, but I am opposed to raising the national income by artificial means. It will be only another "shot in the arm", and we are so full of economic drugs now that we are dopey. We will soon be drunk with them, and then we'll have "the morning after". (And it is liable to be SOME morning.)

This could go on, far into the night, so I am enclosing my scribbled marginal notes on the copies of your speeches. If you care to take a day off some time, you might mull over them. Anyway, how did you like the Alabama-Georgia Tech game last November, in Atlanta? I saw it, and heard that you were there. Some ball game, wasn't it?

Sincerely yours,

  
George H. Kingsbury

GHK:MR

January 21, 1939

Mr. George Kingsbury  
Kingsbury & Company  
3001 North Emerson Avenue  
Indianapolis, Indiana

Dear Mr. Kingsbury:

Mr. Eccles has asked me to acknowledge and thank you for your letter of January 16 in which you comment in more extended manner upon his addresses, copies of which were sent you in his letter of January 6th. While it is evident that you disagree with many of Mr. Eccles' proposals, he nevertheless appreciates very much your interest in going through his speeches and making so many thoughtful comments.

Yours sincerely,

Lawrence Clayton  
Assistant to the Chairman

LC/fg

Received in  
Chairman's Office  
JAN 18 1939  
Board of Governors  
of the  
Federal Reserve System