

FREDERICK H. SCHMALZ

Advertising

Suite 411-415 Alderway Building
Portland, Oregon

January 24, 1939

Hon Marriner S. Eccles,
Chairman Board of Governors Federal Reserve System,
Washington, D.C.

RADIO

- Programs
- Auditions
- Production
- Live Talent
- Transcriptions
- Merchandising
- Radio Counsel
- Commercial Copy
- Announcement Service

Dear Sir:

Listened to your address over N.B.C. last night and understood you-as a private citizen- to say that "deflation is just as bad as inflation". Is that correct? To my way of thinking I would say that it is.

Will you advise me why on Aug 16, 1936 the reserve requirements of all member banks of the Federal Reserve System were increased 50% by order of the Federal Reserve Board of Governors? Why were reserve requirements increased 75% on Mar 1, 1937 and on May 1, 1937 100% of the legal requirements as of from June 21, 1917 to Aug 15, 1936? Soon after the Federal Reserve Board's order of Aug 16, 1936 the people of the country learned that we were in a "recession". The actions of the Board on Mar 1 and May 1, 1937 in increasing reserve requirements first 75% and then 100% threw us into a "depression". Is that not true?

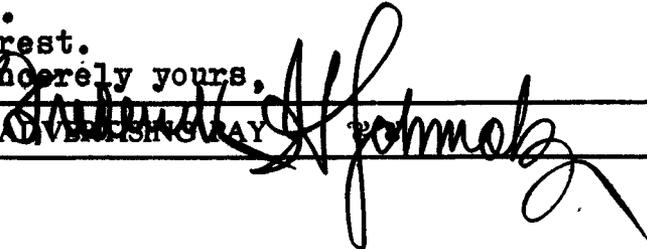
The order of the Board on April 16, 1938 in reducing reserve requirements of member banks to 75% above the legal requirements as of from June 21, 1917 to Aug 15, 1936 had the effect of raising stock and bond prices on the New York Stock Exchange and also had the effect of causing prominent men in business and banking circles to give out interviews freely in the press that business conditions would be getting better. Such interviews were absent from newspapers throughout the country from August 15, 1936 until Apr 15, 1938. To my way of thinking the orders of the Federal Reserve Board in increasing reserve requirements as above stated is the direct cause of our present depression. It is inflation of the worst sort.

If prices are to be brought to the 1926 level as was advocated some months ago by the administration- have not heard any fireside chats along those lines lately- can that not be brought about by reducing reserve requirements instead of persisting in a policy of deflation by the requirement of a 75% increase in legal requirements as of from June 21, 1917 to Aug 15, 1936?

I am leaving tomorrow night for New York and would appreciate having you answer this letter to me care of Lincoln Hotel, New York City, N.Y.

I await your reply with interest.

Sincerely yours,



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January 27, 1939

Mr. Frederick H. Schmalz
411 Alderway Building
Portland, Oregon

Dear Mr. Schmalz:

Mr. Eccles has asked me to acknowledge and thank you for your letter of January 24th in which you comment on his recent radio address and in which you express the opinion that the raising of reserve requirements by the Board of Governors of the Federal Reserve System was deflationary in its effect. On this particular question, I think you will be interested to read a copy of the press release in connection with that action. I am also enclosing a copy of Chairman Eccles' speech before the New Jersey Bankers Association on May 13, 1938, which includes a discussion of this question.

Yours very truly,

Lawrence Clayton
Assistant to the Chairman

enclosures

LC/fgf