

111 HUNDRED TWENTY BROADWAY
NEW YORK, N. Y.

*not in
who's who?*

January 25, 1939.

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

Personal

Dear Mr. Eccles:

I trust you will permit a few words of comment on your reply to Senator Byrd over the radio the other night.

The large profits made during the World War and the large loans made to foreign countries after the war, in our endeavor to increase our foreign trade, and to assist them to their feet, led to speculation during the period beginning 1921 in stocks, real estate and farmlands that eventually wound up in the depression of 1929. This speculation was accentuated by loans by banks to Wall Street, to the business interests and real estate operators for expansion, and the farmers to acquire additional acreage. All it needed was a torch, which was supplied by Chancellor Snowden in October, 1929, when he made the following address in the House of Commons.

"It had been apparent for three months back that a grave financial situation was inevitable. The rise in the bank rate to 6 $\frac{1}{2}$ % was, under the existing conditions, the only means we had of restoring unfavorable exchanges and regulating the basis of credit." Dealing with speculation in the United States he said, "There must be something wrong; something which needs attention when an orgy of speculation in a country three thousand miles away should dislocate the financial system here and inflict great suffering upon the workers in practically every country in the world. The point I wish to make is that if we have a high rate it tends to discourage speculative adventurers; people hesitate to borrow from the bank at 7 $\frac{1}{2}$ % for risky investments and that apparently has been the effect upon the New York market. The orgy of speculation in America has completely deprived the Federal Reserve Board of its control of the money market. It had a higher bank rate than we until the recent rise in our bank rate."

The result of this address was the calling of loans by foreigners and Americans, and the liquidation of their stocks, and calling of business loans and mortgages. The sum and substance of it all is that the Federal Reserve permitted this vast expansion of foreign credit and thereby lost control of the money market of the country. Then there set in a period of deflation, which no power on earth could control, ending in the bank holiday in February, 1933.

Mr. Hoover attempted in December, 1930, when the Bank of the United States was about to fail, to stem the tide by his statement on railroad mergers, a useless gesture. It did result in an improvement to March, 1931, when the market again proceeded in its decline. In July, 1932 the market made another effort only to drop back again, when it became evident that Mr. Hoover was to be defeated.

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Now when Mr. Roosevelt took office in March, 1933 deflation had run its course and the slate was clean. Immediately Senator Carter Glass had amendments made to the Federal Reserve Act, with the idea in view of plugging the holes as follows:

- (1) The abolition of call money by banks as agents for domestic and foreign accounts and out of town banks.
- (2) The abolition of interest on foreign short term balances.
- (3) The doing away with the security affiliates of the banks.

These were very constructive but evidently did not go far enough, as Switzerland later, under the same conditions, had put a tax on this "hot money" to reduce its entrance into the credit channels of that country.

We then proceeded on a process of inflation to raise the prices. The foreigners began to buy back their securities and flood this country with their hot money, which we did not want. These, with government spending, and the effort on the part of business, resulted in improved business conditions which ran through 1936 and the early part of 1937, when your statement on price inflation, immediately followed by one by the President on the same subject, brought on the recession of 1937.

Now why did you do that, particularly as metal prices had not reached the 1936 level to which you were aspiring? In my opinion you did it because you feared a boom in the making, due to the Undistributed Profit Tax, and decided to jam on the breaks lest the foreigner should withdraw his short term balances and dispose of his holdings of American securities, and thereby spill the apple cart, and they did neither. Then the President, in conference with Messrs. Ickes and Jackson placed the blame on monopolies and inventories, a method of attack disheartening to say the least.

You now want to start all over again, and have decided on a new pump priming experiment, whereby the National Debt will be increased to unwarranted proportions. There is no reason why we should aspire to a debt of \$40,000,000,000 because Professor Keynes says so. You were doing very nicely in 1936 when you increased the reserve requirements of the banks and sterilized the gold, and you should have continued in that position, but you should not have come out on price inflation.

I predict that if this policy of pump-priming is not stopped, within a year or so we will be in the throes of another depression, far more calamitous than any of its predecessors. Our public debt is a source of great satisfaction to our foreign friends. They laugh at us and no longer consider us a factor in world affairs. They now think we will soon be on their level of living, debt ridden, when the people are but serfs deprived of their liberty and ruled by propaganda and isms.

It is not too late to change the course which experience has shown you is not in the direction in which you are now heading.

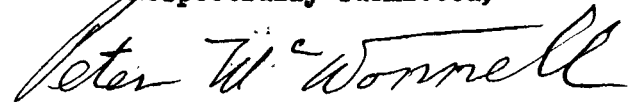
Strongly advocate a balanced budget by the reduction of all unnecessary expenses, like the purchase of silver and the large governmental expenses,

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without interfering materially with the amount of relief. Advocate a discontinuance of government competition with business; work in cooperation with the business interests of the country for an early solution of the railroad and utility situations; arrange for a slight increase in interest rates; make suitable provisions for the withdrawal of the hot money and the sale of American securities by foreigners in the event of war or otherwise; evidently a good deal of it is going on now and the public is in the dark - and then we will go places that will benefit all classes of the American people and particularly the ten million still looking for jobs.

I'd rather be right than President.

Respectfully submitted,

A handwritten signature in cursive script, reading "Peter W. Wonnell". The signature is written in dark ink and is positioned below the typed name "Peter W. Wonnell".

PMcD:IM

February 2, 1939

Mr. Peter McDonnell
120 Broadway
New York, New York

Dear Mr. McDonnell:

Chairman Eccles has asked me to acknowledge and thank you for your letter of January 25 which he has read with interest. It is noted that you do not approve of the present government policies although you suggest that the budget can be balanced by the reduction of "all unnecessary expenses * * * without interfering materially with the amount of relief." Most people who advocate a balanced budget say it is the relief spending which is worst of all and that no substantial reduction can be made in the government's budget except by cutting W. P. A.

Yours very truly,

Lawrence Clayton
Assistant to the Chairman

LC/fgf

Received in
Chairman's Office
JAN 28 1939
Board of Governors
of the
Federal Reserve System