

FIRST NATIONAL BANK AT PITTSBURGH

FRANK F. BROOKS
PRESIDENT

PITTSBURGH, PA.

March 25, 1939

*Reply written on
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Governor Marriner S. Eccles
Federal Reserve System
Washington, D. C.

My dear Governor:

Matt Fleming up in Cleveland has sent to me a copy of the Statement made by you before the Senate Special Silver Committee on Thursday, March 23, and I have just finished reading it over with a great deal of thought and interest.

Since first I met you some two or three years ago I was always impressed with the type of philosophy you had worked out for yourself when it came to the larger economic movements which enter into our lives from day to day, and which are so little understood by the big percentage of our people, even those who attempt to give some thought and consideration to such movements. This last statement you have made once more impresses me to such an extent that I cannot pass it by without taking occasion to commend you for the courageous and firm manner in which you have put yourself on record before this Committee.

The idea of Governmental spending at periods when our country for various reasons finds itself in a condition when our dollar is inactive and not turning over rapidly enough to give employment to a normal percentage of the unemployed whom we always have with us to a certain extent, has always appealed to me with the one possible exception, that is, the use of any portion of such funds towards the upbuilding of municipal or state owned industries to come in competition with well established private industry which in its place and time is reasonably meeting the requirements of the consuming public. In other words, I think there has been a great damage done to at least a few of our well established public utilities by reason of the use of Governmental Funds, in order to chastise the managements, out of all proportion to the possible over ambitious actions on the part of these managements to produce results in excess of what they should naturally be allowed to and at the same time render their services and commodities which they sell for a reasonable price to the consuming public.

FIRST NATIONAL BANK AT PITTSBURGH

Governor Marriner S. Eccles

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March 25, 1939

Before closing this letter to you I want to bring to your attention again the thought that has been in my mind for some time past, and upon which I have already written to you, and that is, this question of margin requirements.

When I look over the daily reports of the small purchases and sales that the particular bank with which I am connected handles from day to day for about two hundred fifty out of town banks which happen to have accounts with us, it almost startles me when I compare these very few orders that come to our bank for the purchase of securities to-day and those back in the 20's even before the boom years of 1928 and 1929.

To-day we seem to lack completely a buying across the country in small amounts even for the securities of our well seasoned corporations, and until we find a way to stimulate this buying power I am inclined to think our money markets for bigger things such as refunding and new capital issues will be very slow to once more function as they normally should.

In all lines of business to-day I believe we are making every effort to encourage people to buy things on a very small margin of down payment, particularly so in the real estate field, yet up to the present time we have not come to the rescue of the individual who might be a prospective small buyer of stocks.


Over a period of forty-five years in touch with the discount departments of two or three banks that I happen to have been connected with here in Pittsburgh, I have never experienced a time when the collateral loan market was as dead and inactive as it is at the present time.

It does seem to me as though this question of margin requirements could be properly left to the executives of banks over the country, with of course a more rigid supervision, if necessary, of same on the part of the Bank Examiners to see that we are not allowed to run to the extremes that the banking profession possibly did in the unfortunate years of 1927, 1928 and 1929.

In my opinion this whole proposition of ours will not get to moving forward until we have first found a way to brace up the securities markets, and I do believe this thought of mine is worthy of at least some consideration on your part, as I know you have already had it in your mind for the past year or two years' time.

With kind regards, I am

Very truly yours



President

March 28, 1939

Mr. Frank F. Brooks, President
First National Bank at Pittsburgh
Pittsburgh, Pennsylvania

Dear Frank:

It was kind of you to write me under date of March 25 and gratifying to have you comment so favorably upon my recent statement before the Senate Special Silver Committee. I note that you subscribe to the principle of governmental spending during periods when there is not enough business to provide employment for what you call "a normal percentage of the unemployed." You feel, however, that an exception should be made in the case of expenditures which will compete with private enterprise such as Federal grants to municipal power plants, for example.

Although the press has succeeded in distorting my views respecting government spending, I have consistently maintained that government spending is at best only supplementary to spending by private enterprise. In other words, the first principle relating to government expenditures is that every reasonable opportunity should be afforded private enterprise to utilize our idle resources and available man power. Failing this, however, I deem it to be the proper, and in fact, the essential obligation of the government to supplement private employment by public employment. This is not so much because of social or humane considerations, although these are pertinent, but rather because I consider it an inexcusable economic waste to have capital, raw materials and man power idle when millions of our people are in need of the bare essentials for a decent standard of living, let alone comforts or luxuries for a higher standard.

I note your suggestion that a reduction in the margin requirements of brokers' loans would assist in promoting recovery at this time. I question that very much since the hesitancy of the public to purchase securities arises, to my mind, from the fact that American business is not in need of additional capital on the basis of our present national income, rather than that would-be purchasers are deterred because of the required margin. Quite aside, however, from this question, the Board cannot lower margin requirements for the purpose of stimulating security purchases. The law says that it may "prescribe such lower margin requirements . . . as it deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the general credit situation of the country." I doubt that there is anything in the present situation that would even remotely form a justification for reducing margin requirements under the above authority.

Trusting you are well and with best wishes, I am

Yours sincerely,

M. S. Eccles.