March 13, 1945.

Honorable Charles W. Tobey,
United States Senate,
Washington 25, D. C.

Dear Senator Tobey:

A few days ago when I was testifying before the Banking and Currency Committee, you asked about the protection which was afforded to people who leave funds with security brokers.

These funds are not segregated nor are they guaranteed in any way. Assurance of safety is given only by the financial responsibility of the brokers. It is true, however, that, under existing rules of the Securities and Exchange Commission and of the principal stock exchanges of which many of the brokers are members, they are required to adhere to certain minimum capital requirements.

Under the SEC rule (X-1503-1), which was put into effect November 9, 1944, a broker or dealer must not permit his aggregate indebtedness, which includes customers' credit balances, to exceed twenty times his net capital. Eight stock exchanges, including the New York Stock Exchange, have rules that require somewhat larger capital. Members of these exchanges do not permit aggregate indebtedness to exceed fifteen times net capital.

Sincerely yours,

M. S. Eccles,
Chairman.

CEP:b

House of Representatives U.S.
PUBLIC DOCUMENT
FREE

Albert Thomas
M. C.

March 28, 1945

Dear Governor Eccles:

The attached is respectfully referred for your consideration and criticism. I shall appreciate it if you will look into this situation and make reply directly to Mr. Haden. Many, many thanks for your courteous cooperation. Best wishes and regards.

A.T. TEXAS.

CECIL R. HADEN
1720 Delano Street
HOUSTON

March 26, 1945

Dear Albert:

I note in the current issue of Time that the Senate Banking Committee has approved a bill to lower the minimum gold backing of the Federal Reserve notes from 40% to 25%. So it now looks like we are headed for real inflation and a controlled currency.

It has been rumored that Governor Marriner Eccles of the Federal Reserve Board is advocating a 100 percent managed currency. If this is correct, then it is suggested that henceforth Governor Eccles be known as John Law Eccles, so as to bring back forcibly to the minds of the American people the memorable story of John Law and the Mississippi Bubble. You will recall that John Law's plan was one of controlled currency and every device of finance was tried in order to maintain his system. Taxes were pledged, and even his paper money was made convertible into government bonds - but all of this in vain. In the final analysis, however, he lacked the one fundamental thing - sufficient backing of gold and silver for his paper money. History records the terrible disaster that followed.

I think it hardly necessary to remind you of what happened to German currency after the last war. German paper money was tremendously inflated - without proper gold and silver backing - and the result was that German economy was wrecked and the way was paved for this present terrible war.

The ego of the proponents of a managed currency is astonishing. Each of them - history records - has always sung the same old tune - no politics will be permitted to sway the decisions of those empowered to control currancy - his system is infallible - but always in the end the story has but one ending - disaster. And it must be remembered that it is the poor and middle class that always feel the brunt of such a disaster.

Are we witnessing the beginning of an era of controlled currency? If so - then you will be derelict in your duty to your constituents unless you raise your voice in protest to such a plan as is contained in S-510 which is a companion bill to H.R. 2124.

If we must have more gold reserves for our currency then let it be done through a raise in the price of gold as it was done in the early 1930's. A revaluation of present gold reserves at $48.125 per ounce would not only accomplish what is proposed in these bills but would also provide thousands of jobs for miners in gold mines after the war - in mines that cannot make the grade under the present price of gold and the increased wage levels. I think that this is something to think about - don't you?

Sincerely yours,

Cecil R. Haden

Mr. Albert Thomas
Congress of the United States
House of Representatives
Washington, D. C.

March 29, 1945.

Honorable Albert Thomas,
House of Representatives,
Washington 25, D. C.

Dear Mr. Thomas:

Enclosed is a self-explanatory letter, which I trust will answer Mr. Haden's letter to you of March 26.

Mr. Eccles was obliged to make a trip to the West; otherwise he would have replied personally. On his behalf, I wish to thank you for referring the matter to us and to reciprocate your best wishes.

Sincerely yours,

Elliott Thurston,
Assistant to the Chairman.

Enclosures 2

ET:b

March 29, 1945.

Mr. Cecil R. Haden,
1720 Delano Street,
Houston, Texas.

Dear Mr. Haden:

Representative Thomas referred to this office your letter to him of March 26. As Mr. Eccles is temporarily on a visit in the West, I am writing to you on his behalf.

The measure to which you refer, reducing the required gold backing of Federal Reserve notes from 40 per cent to 25 per cent, has been carefully considered by the Banking and Currency Committees of both Senate and House, and so far no objections have been raised by any members of the Committees or by any witnesses, including those from the American Bankers Association. If the bill were as dangerous as you have been led to believe, I am sure there would have been objections. I enclose an explanatory statement with regard to it.

It is well to bear in mind that whether the gold collateral backing is 40 per cent, 25 per cent, or any other figure, it is entirely a permissive figure and does not mean that the gold backing of the notes would necessarily fall to that level. Stated in another way, as much gold will be pledged as collateral as there is gold available. When the requirement was 40 per cent, as it had been since passage of the Federal Reserve Act more than thirty years ago, we have often had as much as 100 per cent gold backing.

The "rumor" that Mr. Eccles advocates 100 per cent managed currency is not founded on fact, if that phrase means what the remainder of your paragraph on this subject implies. Currencies and bank credit are necessarily subject to varying degrees of "management" in every nation. Mr. Eccles has always advocated the minimum degree of management that is essential in the interest of stability and economic progress.

As Mr. Eccles reminded the Committees of Congress, gold or silver backing of currency has never prevented inflations, which arise from vast expenditures voted by governments and not covered by sufficient taxation. As you know, the source of the present inflationary danger is the huge deficit-financing of the war. Whether the currency has collateral behind it would have no bearing on the deficits and the creation of more and more money in the war financing operations. As the Supreme Court has said in the gold cases, among others, the Government is sovereign in the field of money. No collateral checks or restraints on the issuance of currency will by themselves prevent a government bent on inflating its currency from doing so.

The question of raising the price of gold, which you suggest, was brought up before the Banking and Currency Committees and rejected. It would amount to paying a subsidy to the owners and producers of gold. It is estimated that foreign countries hold under earmark in this country nearly 4 billions of gold and have monetary gold reserves of more than 10 billions. All of this, together with such dollar balances and such other American assets as they also hold, represent potential foreign claims on our goods and services. To increase the price of gold would amount to giving to these foreign countries a tremendous windfall without any corresponding return to us.

You are aware no doubt that gold mining has not been classified as an essential war industry entitled to manpower or equipment, and that a great deal of the gold produced in this country is a byproduct of other mining operations. The number of jobs that would be provided for gold miners at any time would be relatively insignificant.

There are many other considerations that argue against an increase in the price of gold. Not only does the United States now have the lion's share of the world's supply, but is likely to continue to receive gold in the future as it has in the past decade. Therefore, there is no reason to increase the price in order to attract more gold. Such a step would be psychologically and practically disruptive and would be a roundabout and expensive way of meeting the technical problem presented by the gold collateral requirements for the issuance of Federal Reserve notes.

As Mr. Thomas requested that a reply to your letter be sent directly to you, I am following his instructions and at the same time forwarding a copy of this letter to him for his information.

Sincerely yours,

Elliott Thurston,
Assistant to the Chairman.

Enclosure

ET:b

ALBERT THOMAS
EIGHTH DISTRICT
HOUSTON, TEX.

COMMITTEE:
APPROPRIATIONS
SUITE 212
HOUSE OFFICE BUILDING

Congress of the United States
House of Representatives
Washington, D. C.

March 30, 1945

Dear Thurston:

This will acknowledge receipt of your letter of March 29 inclosing a copy of your reply to Mr. Haden.

Your courtesy and cooperation in this matter are sincerely appreciated.

With best personal regards and every good wish, I am

Sincerely yours,

Albert Thomas

Mr. Elliott Thurston
Assistant to the Chairman
Board of Governors
Federal Reserve System
Washington 25, D. C.