

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date March 16, 1938.To Mr. Bryan

Subject: \_\_\_\_\_

From Mr. Thurston

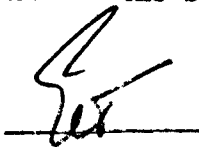
Attached is self-explanatory correspondence between the Chairman and Mr. Nardin.

As indicated, the Chairman wants to turn loose all the arguments he can think of to answer this contention on the un-distributed profits tax, and asked me if I would get you to prepare in memorandum form, so that a copy could be sent to Mr. Nardin, a brief that will ostensibly knock him off this base. He wants to furnish Nardin also with a copy of his testimony before the Byrnes Committee, which I am enclosing, and which discusses extensively this tax, as you know.

He would like to emphasize that he proposes an allowance to permit the amortization of debt and that he has favored exempting the small companies which do not have access to the capital markets. He would like also to refer to what happened in the '20's when corporate surpluses went into speculation. He would also quote from the Brookings Institution study, "Income and Economic Progress", pages 156 and 157, with reference to income distribution and the diversion of savings and corporate surpluses into speculative channels.

He feels that Mr. Nardin, like so many others, also needs to be set straight on the point that banks do not lend deposits, but create them for lending purposes and that only the owner of a deposit can put that deposit into circulation. He added that he would like this memorandum prepared in a non-technical way.

That, I think, about covers an extensive conversation with him on the subject of this letter.



Attachment.

# PET MILK COMPANY

GENERAL OFFICES ARCADE BUILDING

SAINT LOUIS MISSOURI

December 30, 1937

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

My dear Marriner:

I have just read the speech which you made to the farm group and with all you say I am in hearty agreement, except that to most people it will not convey all that you mean to say and to some it will, I think, convey what you do not mean to say. There would be no profit in my telling you that but for the feeling I have that you, better than any other person, might make a real contribution to the clearing up of the mess of inconsistencies with which a harassed people are now being tragically confused and misled.

You use the terms "monopoly" and "competition," the first, by implication, as if it were the curse of our world, the second as if it were the most benevolent of our lost practices. As a matter of fact, neither implication is true. We have no monopolies except those which are now recognized as natural phenomena and are under governmental control. Of our other industries the most that can be said is that in the course of our industrial evolution we have to some extent modified the operation of that antithesis of monopoly which is the full, free and unlimited operation of the law of supply and demand. So when one condemns monopolies among our industries he must be condemning those phases. And when he speaks of competition as if it were the cure-all for our industrial ills he is following the same line of confused and misleading thought.

The plain truth is, it seems clear to me, that we cannot in these days of modern industry get along without that degree of monopolistic practice represented by such modification of competition as would keep it from being the most destructive force in the world if it were permitted to function in all the stark and unrelenting phases which it assumes under the so-called "law" of supply and demand.

I doubt the need to argue that point with you. Under unrestricted competition we should at this time put prices of all things down and down until the low price would expand demand and reduce production so as to bring the two into balance. That such method now would result in industrial and financial chaos seems too clear to permit of any doubt. I shall not follow through with that. You know it.

Now that is not to say that our practices are not faulty in many respects. They are. But it is to say that we shall not correct the faults and cure the disastrous consequences of them by damming in blanket terms something that we do not have in the sense the term "monopoly" implies; something

which we could not get along without in the only sense in which the term "monopoly" can be fairly and truthfully used. We shall not find the way to correct faults and cure the ills by prescribing a thing, "competition," which, taken in unmodified form, would destroy us.

All of this is, of course, futile if it only condemns what is being done without pointing the way to what should be done. And that is rather a long and complicated story. Yet some things seem as obvious as they are fundamental. In the first place, we need to face the fact that the so-called law of supply and demand is as imperfect and impractical as an automatically complete regulatory influence in our human industrial relations; as is the law of survival of the fittest in our human social relations. None would advocate a return to the merciless social condition in which those unable to care for themselves should be permitted to perish without help. It is no less unthinkable to suggest a return to that industrial status in which no artificial methods are adopted to prevent industrial and financial chaos.

I have long had the conviction that we have come upon a time industrially--and politically, since industry and government are now necessarily so closely related--when some heroic action is needed. I think a few men--of whom you should be one--need now take some time off from the handling of specific problems and look at the big problem we have before us. I cannot ascribe wholly to dishonesty the sorry spectacle now presented of business men on the one hand and Government on the other, each blaming the other for the distress in which we find ourselves. That is--it must be--due more to ignorance than to dishonesty. And that is hopeful since the ignorance should be more easily cured. But the ignorance will not be cured by such activity as declarations of principle by the National Association of Manufacturers and Chambers of Commerce. Such organizations are too much hampered by the prejudices of members of little breadth of vision. The ignorance will not be corrected by the outbursts of Government officials. The reasons for that are obvious.

I am optimistic enough to believe that if a dozen or twenty able men took, not a day or a week, but a month or more, to look the situation over and work it over they might reach some sound conclusions that would be helpful. I have the further belief that if such a group of men reached some fundamentally sound conclusions they might be able to find the way to convey their convictions in proper order to both public officials and to business men.

I think there is no man in America so well able as you, from the standpoint of clear-headed thinking, and position, to get together such a group and stimulate their thinking along lines that might bring good results. Why don't you break away from other things and try it? There have been few, if any, times in the history of the world when anything needed more to be done.

I don't suggest it as an easy job. It is a hard one. But it is the difficult things that are most worth doing. This is not a thought of the


Hon. Marriner S. Eccles

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December 30, 1937

moment. I have been pondering over it for more than three years. I am more sure now of the need for it than I was when the idea first came to me. Think it over. It needs doing soon.

Yours,

A handwritten signature in cursive script, appearing to read "Bill", written in dark ink on a white background.

WTN:AS

January 7, 1938.

Mr. W. T. Nardin,  
Pet Milk Company,  
Arcade Building,  
St. Louis, Missouri.

Dear Bill:

Your letter of December 30th is as usual thought-provoking and in accord with my own general views regardless of the ambiguities which may arise when I try to express them.

I was not at all satisfied with the Chicago speech because I did not feel free to say all that I thought, and much of what I did say had to be put in more guarded language than is my natural inclination. Certainly I agree with you about the terms "monopoly" and "competition", which might be misleading possibly as I have used them. I am not sure that I will go quite as far as you do in saying we have no monopolies except those which are now recognized as natural phenomena and are under governmental control. But that is not of vital importance. I do agree entirely that unrestrained competition on the one hand could be ruinous and uneconomic, and I feel strongly that it would be a great mistake for the political forces of the country to embark upon another trust-busting crusade directed at mere size and without much regard for practical results. What I had in mind, as you know, was what I referred to as monopolistic practices whether by industry, or labor, or both, and what I meant by that was any practice which tended to impede and reduce production. And, of course, we get nowhere merely by over-heated public debate, using terms and catch-phrases which are not defined and which tend to get further and further removed from practical realities.

Doubtless some heroic action is needed, but you both flatter and dismay me when out of your long experience and deep thought you can conjure up nothing more helpful or heroic than to put up to me the task of assembling "a dozen or twenty able men" who ostensibly after a month or more of pondering would be able, first, to see the way to salvation, and secondly, to convince enough others in the business as well as in the political

Mr. W. T. Nardin

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January 7, 1938

world that the conclusions reached were fundamentally sound, or conceding that, that they should be acted upon. As I say, I appreciate your gross flattery, but I doubt that anybody in less position than that of the President could assemble this super-brain trust, in the first place, or get a hearing for it that would be effective, in the second place.

Please do not understand me. I think your idea is good, but I am certain that I hold no commission to put it into execution. In fact, I think you are in a better position and better equipped to be the mainspring yourself. I would be interested to know the names of a dozen or twenty others who would begin to have your breadth of knowledge of the economic machinery and how to make it work, or, who, having it and being able to agree on ways and means, could get more than a corporal's guard to follow them. I do not wish to appear pessimistic, but on the other hand, I cannot be altogether cheerful about the prospect of assembling any more groups representative of business and government to achieve what is meant by this other catchphrase, namely, "cooperation".

What does hearten me, however, is to hear from you and have your enlightened comments and, particularly, criticisms.

Sincerely yours,

M. S. Eccles,  
Chairman.

ET:b

# PET MILK COMPANY

GENERAL OFFICES ARCADE BUILDING

SAINT LOUIS MISSOURI

January 13, 1938

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

My dear Marriner:

I read with much interest your very gracious letter in reply to my, apparently to your mind, somewhat fantastic suggestion.

I shall not now press the matter on you further than to suggest that you don't put the idea entirely out of your head. Some day somebody is going to have to do something of this kind. I strongly suspect that there will be more need for it a year from now than there is now. I am quite confident that at the present time no one is in so favorable a position to do what needs to be done as you are. I suspect that will still be true a year hence. Maybe you'll get around to it.

I am highly appreciative of the generous suggestions of your letter and without indulging in any "gross flattery" I must say that you have a most gracious way of disproving suggestions.

Very truly yours,

*Bill*

WTN:AS

FEDERAL RESERVE BANK  
OF  
ST. LOUIS

March 7, 1938

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

Dear Marriner:

I am always fascinated by the lucidity with which you expound your money theories. I'm sure you will be neither surprised nor offended when I tell you that I always take myself in hand and say: "Now watch yourself or you will be following this d-d fellow whether he is right or not."

And that attitude of listening had its origin a long time ago--some thirty-five years ago--in connection with the same general subject in which you are now so much interested, as am I. When I became fascinated with the subject of Economics in my college days to such an extent that I spent a year doing graduate work in it before I took up law, I had forced upon me the conviction that one could not allow himself to follow any man's thinking on that very complicated subject without looking constantly for the currents of other than economic influence which might divert theory from the course which practical events would develop.

The more I have thought and heard on economic subjects, the more I have been impressed by the necessity of such attitude. And the habit exaggerates itself when I hear you speak, not that you are more likely to ignore these diverting currents, but that your compass of logic points so strongly to the pole of your conclusions as to make it difficult to see the drift that may take one aside from correct conclusions.

I think you fall into some error in your thinking by overlooking some of these diverting currents. The most strongly diverting current in the field of economic thinking is the element of human psychology which needs always to be taken into account and is most difficult to take into account. That, I think, you overlook in your reasoning about the undistributed profits tax. ✓

Your declaration against the suspension of the tax as to earnings reserved for the payment of debts, for example, was based on the assumption that the payment of debt is deflationary. The assumption, as a matter of theory, is correct. But your conclusion on the particular point is, I



think, all wrong for the reason that the theory is thrown awry by the human psychology which is in the equation. If the payment of debt is deflationary, by the same token the creation of debt is inflationary. And the corollary is clear and plain that a tax which stifles the inclination and/or the ability to create debt is necessarily deflationary.

I shall not present to you any extended argument on the point that the undistributed profits tax does stifle both the inclination and the ability to create debt. It works on both the debtor and the creditor. The prudent man is less likely to incur debt when his prospective ability to pay is impaired. The prudent lender is deterred from lending when the borrower's ability to pay is under impairment. That is too plain to need argument in its support. And considering all the phases of psychology involved, I don't see how one can escape the conclusion that the limitation of the ability to create debt is vastly more deflationary than can be such payment of debt as would ensue with the restriction removed.

It may be said, of course, that there are times when such a tax would have a wholesome influence. That is true. It is equally true that there are times when its influence is distinctly bad. This is one of the times. But the tax can be conclusively condemned on broader grounds than mere present conditions. I am not so reactionary as to hold to the theory, generally accepted only a little while ago, that taxation is not a proper instrument to use in promoting the cause of social progress. I do, however, hold to the conviction that a tax which is wholesome in its effect only part of the time is a bad and dangerous instrument to use unless it can be applied only when its effect is good and dispensed with when the effect is bad. I do not believe this tax can be so applied.

And, as a matter of fact, the accumulation of surpluses can't be so broadly indicted as deflationary as you indicated in your talk Wednesday afternoon. Your charge was that the \$1,500,000,000 extra accumulation in the years preceding 1929 was deflationary. You called it deflationary because it was "accumulated cash." If it had been accumulated cash, locked up in a vault, it would have been deflationary. It wasn't so used. It was deposited in banks and was loaned by the banks, as you indicated in an earlier part of your talk. The banks were using all that cash and were borrowing from the Federal Reserve System. In theory it was deflationary. In actual practice it was not so at all.

Now it might be argued that an undistributed profits tax during that period would have prevented some of the inflation which then developed. Let it be admitted that it would have had such tendency. Yet he who concludes that it would surely have prevented the inflation of that period again makes the mistake of leaving out of account the psychology of the period. Sure the

psychology might have been tempered, but there were such powerful influences then moving the public mind, imagination and feeling that no man can say what one single act would have done.

Now I am quite well aware of the fact that I have only sketchily touched a very complicated subject. It is much too complicated to discuss fully in a Sunday afternoon letter. I wish your talk might have been made when we had the day before us rather than at the close of the day. In that event I should have been so reckless as to take issue with you on some of the points which you raised. I might have done so even at the close of the day but for the fact that I had to catch a train.

Please don't class me, because of these remarks, with those who wholly condemn economic theory. I think it most important that we give due consideration to economic theory. I wish, however, that we might more uniformly realize, when we are dealing with such theory, that we cannot proceed with the dogmatic sureness which physicists may indulge in with relatively small chance of serious error. I wish we might keep our minds always open to the realization that our economic theory can approximate only trends or tendencies and that we need always to be looking sharply for the counter trends and for the diverting currents.

You have been so graciously considerate of my critical suggestions that I feel no need to apologize for these remarks. I do want you to know, however, that, with all my tendency to be critical, I greatly admire your habit and ability of thought. I know no other person who is thinking more constructively about the things that are tremendously and fundamentally important to our troubled world. And I ask you not to allow yourself to think that in presuming to be critical I am exhibiting a conceit arising out of a conviction that I know all about the subject. The contrary is true. As I think about our industrial, social and political problems I am dismayed by the complexity of them. Out of such dismay came my recent suggestion that a few men, able to think as you do, get away and try to discover some new compass with which new men can adventure beneath the new skies that are above and about us now and for the future.

Please don't impose upon yourself by feeling need to reply to this letter. It needs no reply. Though a reply might contribute to my enlightenment and understanding, there are more important people who need such enlightenment as you can give. Yes, I'll put modesty aside so far as to say that there are people near you who need it more than I do.

With every good wish, I am

Most sincerely,

*N. J. Nardin*

March 11, 1938.

Mr. W. T. Nardin,  
Pet Milk Company,  
St. Louis, Missouri.

Dear Bill:

Before leaving for a brief respite in Florida, I wanted to acknowledge receipt of your letter of March 7th and to say that I have no intention of letting you get away with all of the statements in your typically incisive and thought-provoking letter. During my absence, I have asked some of the members of the staff to get together ammunition to fire back to you on the effects of the undistributed profits tax.

Needless to add, I am always gratified to hear from you because you always contribute to enlightenment and understanding, even when you put me on the defensive. Let me add, also, that I think I catch your point with regard to some people hereabouts who would profit by some enlightenment.

With best regards,

Sincerely yours,

ET:b