

files

April 25, 1938.

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

Dear Bill:

Before escaping for a short rest, I told you that I wanted to fire back at you on your letter of March 7th. In my absence, the enclosed memorandum, dealing with some of the points in the case you make, was prepared by the tax experts in our Research Division and I am enclosing a copy for your own information and, I hope, enlightenment, provided you are not so swamped with more pressing matters that you cannot find time to wade through it.

In going over a transcript of my offhand discussion on the Wednesday afternoon to which you refer, I cannot find any statement I made to the effect that the accumulation of cash surpluses of \$1,500,000,000 by some 213 of the large corporations was "deflationary". The point I was making with reference to this figure was that the rainy-day-reserve argument won't stand up under analysis. If that reasoning was sound, then why did this large and representative list of big corporations have in each year after 1929 cash balances of approximately the same amount as they had in each year from 1925 up to 1929? In fact, their cash balances were actually higher in each year since 1929 than they were in any year prior to 1929. I did not say that this was deflationary. In point of fact, I have contended all along that the accumulation of these cash surpluses tends to result in unhealthy speculation, as the Brookings Institute has so well pointed out in their studies, from which the enclosed memorandum quotes some pertinent paragraphs.

Nor can I let you get by with putting in my mouth the assertion that I think this tax alone, had it been in effect in the late '20's, would have prevented the speculative mania. It might have helped some. It probably would not have stopped it. After all, the real point is that the essential problem, as I see it, before this country is, first, the creation of an adequate supply of money, then the maintenance

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of a steady flow of funds into investment and production, and the maintenance of a balance between investment on the one side and consumption on the other.

Among all the complications as to price and wage policy and the distortions that tend to develop, as evidenced by what happened in housing a year ago, not the least important factor is the problem of preventing large accumulations of funds from being diverted into speculative instead of productive channels. I know it is a large and formidable subject and I have no intention of delving into all of its ramifications in a letter, even if you had the time and patience to read it. I would like to have a chance to talk it out fully with you sometime when we are in the same place at the same time without other distractions, because I flatter myself sufficiently and regard your intelligence so highly that I think we would come out at about the same place when all the factors are taken into consideration.

In the meanwhile, let me reiterate what you say at the end of your letter, to wit, do not impose upon yourself by feeling that you need to reply to this letter--much as I like to hear from you and much as I feel that it comes under the general heading of a contribution to my own enlightenment as well as yours.

With kind regards,

Sincerely yours,

M. S. Eccles,
Chairman.

enclosure

EL:b