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TRUST DEPARTMENT

May 19, 1938

Hon. Mariner S. Eccles, Chairman
Federal Reserve Board
Washington, D. C.

My dear Mr. Eccles:

In a recent address before a Bankers' Association, you are quoted as having approved Government spending, pump priming and an unbalanced budget as a means of attaining permanent business recovery.

I would deeply appreciate the courtesy if you would advise where in modern history any nation has ever attained permanent prosperity by any such methods. I am asking this question in absolute sincerity.

I have been a banker since 15 years of age, a National Bank Examiner for 12 years, and in all my reading I have yet to find a nation which did not ultimately face bankruptcy by continuing to spend more than it received.

The present Administration must have sound reasons for adopting the present policy of unbalanced budgets and pump priming.

I know of one instance in Ancient History where such a policy signally failed. I know of no instance in modern history where it has ever succeeded.

Diocletian, the Roman Emperor who reigned about 284 A. D. attempted a planned economy. Within two years Diocletian's attempt to control prices signally failed, and Gibbon, the great English historian, remarked "and Diocletian soon discovered that he could not do what the Egyptians four thousand years before attempted to do and failed."

If you will, therefore, refer me to any instance in modern history where a nation achieved prosperity by going year after year deeper into debt, I assure you your courtesy will be much appreciated.

Very truly yours,

Albert D. Graham
*Not listed in
annex
Officers
of bank*

SMH:CVH

May 24, 1938.

Mr. Samuel M. Hann,
Trust Department,
First National Bank,
Baltimore, Maryland.

Dear Mr. Hann:

In response to your letter of May 19th, Chairman Eccles requested me to send you the enclosed text of his recent address, from which you may be interested to note that he regards the deficit-spending program only as a means of alleviating both social and financial conditions pending revival of private enterprise. He has at no time remotely felt that such a program can of itself achieve "permanent business recovery". The enclosed address undertakes to emphasize the basic factors which, in his judgment, must be corrected. Without such corrections he feels that no deficit-spending program could succeed.

You ask what nation in modern history "has ever attained permanent prosperity by any such methods". The question might well be, "What nation has ever attained permanent prosperity by any methods?" If your question is whether any nation in modern history has successfully managed deficit-spending, the Swedish example is, of course, conspicuous. Here again, it is important to remember that the program was merely enabling and that other factors which were more basic had to be corrected in order to bring about ^{accounting} budgetary balance. In a recent study of the Swedish experience, a copy of which was sent here by the Governor of the Swedish Riksbank, appears the following:

"Sweden's unemployment policy and financial policy acquired, then, on the whole, a more or less expansive character. This is particularly true in regard to the new programme submitted by the Social Democratic Government which came into power in the autumn of 1932. This programme was approved in all essentials by the Riksdag in the spring of 1933 and subsequently guided the Government's financial policy. It systematically aimed at seeking to overcome the depression by means of a financial expansion and to pave the way for a fresh revival. Thus the financial policy was here deliberately made to serve the ends of a cyclical policy and to conquer the business stagnation. By

May 24, 1938

greatly widening the scope of the loan budget the Government procured funds for realizing the plan, and the intention was that these loans should be repaid when times had improved and production had again reached a more normal level. If calculated over the trade cycle in its entirety the budget would by this means be put in equilibrium; on the other hand, it meant the abandonment of the principle that each individual year's budget should be made to balance in conformity with traditional practice, which required that financing by means of loans should be restricted to 'productive expenditure'."

It is, of course, necessary to be very cautious in attempting to draw analogies between the experiences of different countries.

I am also enclosing an extract from Macaulay's "History of England", which has received some notice because the Chairman has referred to it publicly. It is interesting, not as a justification of continually increasing debt, but as reflecting popular misconceptions in regard to the budget.

Very truly yours,

Elliott Thurston,
Special Assistant
to the Chairman.

enclosures

ET:b

Handwritten initials

MORTON M. PRENTIS, PRESIDENT
JAMES D. HARRISON, VICE-PRESIDENT
G. HARRY BARNES, VICE-PRESIDENT

ALBERT D. GRAHAM, CHAIRMAN OF BOARD

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TRUST DEPARTMENT

May 25, 1938

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

My dear Mr. Thurston:

Your letter of May 24th enclosing copy of the address made by
Chairman Eccles before the New Jersey Bankers Association, and an excerpt
from Macaulay's "History of England" has been received.

I have read the address and the excerpt with interest and
profit.

I assure you your very great courtesy is much appreciated.

Very truly yours,

Handwritten signature of Samuel D. ...
Assistant Trust Officer

SMH:CVH

MORTON M. PRENTIS, PRESIDENT
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BALTIMORE, MD.



June 4, 1938

TRUST DEPARTMENT

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

Dear Mr. Thurston:

Your letter of May 24th, replying to mine of the 19th instant, has been received and read with profit and interest.

You refer to Sweden as a modern example of successfully managed deficit-spending.

Professor Eli Heckscher, one of the most distinguished of Swedish economists, while in this country recently, stated that monetary policies, including the fiscal policies of the government, had played an insignificant role in the economic recovery enjoyed there. The increase in business activity was largely the result of exports of iron and steel products, reflecting re-armament demand, and of lumber, reflecting the British housing boom.

Referring to Macaulay's "History of England", the passage quoted has little applicability to the present situation. England for twenty one years was engaged in a life and death struggle with Napoleon, and it was the great English Statesman Pitt, ^{who} in an immortal speech before the British Parliament, exclaimed - "England has saved herself by her courage, and she will save Europe by her example." England's mounting and tremendous debt during that period was caused by the necessity of defending her National existence. The two hundred years of British history prior to the outbreak of the World War witnessed an unparalleled rise in industrial activity. The rate of increase in National income was unprecedented. In consequence, a growing debt burden could be "taken in stride". It should be observed that the debt burden had no casual relationship to the secular increase in economic activity. The rise in National income was the accompaniment of one of the most rapid developmental periods on record.

The fact that the increasing debt could be "taken in stride" did not justify the growth of that debt. It resulted from non-productive spending. England, increasing rapidly as she was in economic strength, would have been in better economic condition had the debt not existed.

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Mr. Elliott Thurston, Special Assistant to the Chairman
Board of Governors of the Federal Reserve System

Now that the rate of economic growth apparently is slowing down in England, future increases in the debt burden will press heavily upon the people. The burden will not so be absorbed in wealth increases.

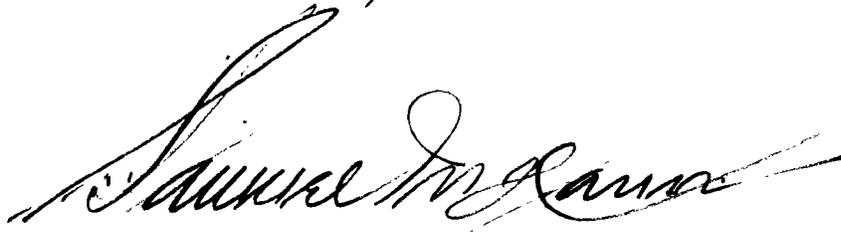
It is very significant that the United States has lagged behind most countries in economic recovery; it is very significant that while England is spending vast sums in rearmament, she has managed not only to balance her budget, but has experienced no such depression as exists in this country.

It is, likewise, significant that the Roosevelt Administration followed the advice of the English economist Keynes, an advocate of "pump-priming and public spending", whose recommendations for a like policy were flatly turned down by the British Government.

The fallacy of your "planned economy" is signally demonstrated by the effects of your silver purchasing policy, the prices of cotton, wheat, corn, etc., resulting in millions of dollars loss to the tax payers of this country, many of whom have little sympathy with your attempt to surmount the laws, not of only of supply and demand but, likewise, of nature and of God.

I am very respectfully yours,

SMH:CVH

A large, stylized handwritten signature in cursive script, appearing to read "Samuel M. Jones". The signature is written in dark ink and is positioned to the right of the typed name "SMH:CVH".

June 6, 1938.

Mr. Samuel M. Hann,
Trust Department,
First National Bank,
Baltimore, Maryland.

Dear Mr. Hann:

This is to acknowledge receipt of your letter of June 4, 1938. My reply to your earlier letter was intended merely to respond to your questions and not to argue these questions one way or the other.

Nothing in my reply, it seems to me, justifies your assumption that various policies which you mention are policies of this Board or its members or staff, including myself.

Sincerely yours,

Elliott Thurston,
Special Assistant
to the Chairman.