

15 STATE STREET
BOSTON

December 6, 1940.

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

My dear Mr. Eccles:

I have read with much interest your remarks made in a closed meeting at New York concerning excess reserves, interest rates and Government bond financing as reported in the Wall Street Journal of December 5, 1940. Admiring you as I do and feeling that you are the most intelligent, unprejudiced and enlightened gentleman ever to preside over the Federal Reserve Board (this feeling is shared more generally on State Street than you may suspect) I must be permitted to hope that your remarks, as reported, are not to be taken too seriously.

Surely the effects produced by a very substantial reduction of excess reserves would be most unfortunate under existing conditions. A severe decline in Government bond prices and a thorough unsettlement of business would inevitably ensue just at a time when the country is girding itself for a great productive effort. Indeed, considering the abnormal, almost psychopathic sensitiveness of business since 1932 to anything remotely suggesting a deflation of credit (as demonstrated so notably in 1937) I don't see how a truly frightening readjustment could be avoided.

If speculative excesses had to be dealt with (as they did in 1937 to a moderate extent) a more effective control of credit by the Reserve Board might well be exerted. But today, encouragement is needed to overcome the excessive caution and timidity of our economy. Why put a curb on an overdocile, none too confident horse who is being asked

Mr. Marriner S. Eccles,
Chairman

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to make a tremendous pulling effort?

I refuse to believe that the economists of the New York banks have really frightened you into taking seriously their pet phantom of unrestrained credit inflation which, since the advent of the New Deal, they can always be counted upon to produce (they are without shame or remorse) whenever the Reserve Board index shows the slightest sign of sustained strength. I beg of you not to prescribe sack cloth and ashes and a hair shirt into the bargain for a country that is still suffering from delusions of poverty, but in any case I should have to remain your devoted admirer for all that you have succeeded in accomplishing in the face of great difficulties.

Sincerely yours,

Stedman Buttrick

SB/A

December 9, 1940.

Mr. Stedman Buttrick,
15 State Street,
Boston, Massachusetts.

Dear Mr. Buttrick:

This is to acknowledge receipt of your letter of December 6 and to express appreciation of your personal references.

As the National Industrial Conference Board meetings are not supposed to be public, I had not intended to release what I said at the meeting a week ago. Subsequent newspaper reports, however, were so erroneous and misleading that I felt I had no alternative except to make public the text of what I had actually said. I am enclosing a copy.

It makes clear, I think, that I do not share the views of those bankers who are thinking in terms of high interest rates. I would not wish to see anything done, of course, that would be a shock to the economy. I was speaking of the longer range problem of inflationary possibilities that would arise only when we had achieved full production and employment. I hope you may find an opportunity to glance over the text itself.

Again let me say that I appreciate and am encouraged by your generous comments.

Sincerely yours,

M. S. Eccles,
Chairman.

enclosure

ET:b