

R. S. GRAY
ATTORNEY
21 CLEMENT AVE.
ALAMEDA, CALIFORNIA
PHONE "ALAMEDA 1985-J"

February 5th, 1936.

Marriner S. Eccles, Chairman,
Federal Reserve Board,
Washington, D.C.

Dear Sir:

I deeply regretted that the infirmities of age made it impossible for me to attend the luncheon of the Commonwealth Club of California when you lately addressed that Club on on the "FEDERAL RESERVE BANK -- Past, Present & Future".

As that was a "no radio" luncheon, such loss was intensified.

Not very long ago I had the pleasure of talking with a gray haired old Scotchman who was well acquainted with your father and his family when you were a boy and you should have seen the old Scotchman's beaming face when I tried, as best I could, to express my appreciation of your services to all of us as Chairman of the Federal Reserve Board and the fact, as stated on the official announcement, sent out by the Club, of that talk of yours that you are "The Most Influential Man in Baking Today".

And not only that but that, as such Chairman, you are exactly the right man in the right place and the need for such a man in that place is indeed very great.

I suppose I must reconcile myself to what appears to be the fact that I never can know what you stated to that Club on Wednesday, September 25, 1935.

Nevertheless, I am sure you can and I earnestly hope you will help me by comment, suggestion or reference in the following respects.

I listened to Father Coughlin's last radio broadcast, to wit: last Sunday, and I was dumbfounded by his evident determination to convince his radio audience that late action by the Treasurer of the United States in turning over certain Certificates to The Federal Reserve had made it impossible for Congress to put behind the Frasier-Lempke Bill the actual or potential security of the gold lately called in by the Government.

As an illustration of the result, a young man told me the following.

"I and my father listened to that address and when it was done my father said, 'How could the Treasurer of the United States be such a fool?'"

The young man further said to me in substance, I told my father I did not believe that the handing over of such Certificates by the Treasurer to the Federal Reserve was anything but a formality. The young man asked me, "Was I right?"

I told the young man that, if I understood the situation, the physical handing by the Treasurer to the Federal Reserve of such Certificates did not at all affect the power of the Government to issue currency upon any basis which it saw fit, whether upon the basis of such gold or otherwise.

Now, Mr. Chairman of The Federal Reserve Board, was I right or wrong?

Such young man thereafter remarked to me in substance, I must make a careful study of the Federal Reserve Bank.

To put it mildly, I was appalled for I knew just what would follow: to wit, a volley of questions and I forestalled them all by saying I will not undertake to answer categorically any questions in that field.

Well, the questions followed and in a flood and I declined to answer each and all until at last, in exasperation, the young man said, "Well, at least you can and must, tell me how to go to work to study the Federal Reserve Bank and the Federal Reserve Banking System".

To this I replied, I will write to its Chairman and ask him to tell me how to tell you.

Nevertheless you and I very well know that as he is a layman in every sense of the word, knowing very little of either jurisprudence or banking, that it would be useless to tell him to get the Statute or Statutes concerned and study them.

Certainly every citizen of the United States/^{who} is interested in such a matter and who is willing and (above all) really wants to study it, should be given all help that is available, but that is not all.

Some months ago the Commonwealth Club of California, or rather its Section on Economics, determined, after a preliminary investigation, to make a research study of Social Credit.

A Special Committee of the Section has been at work for some time preparing a program for the Section's "Forthcoming Study of Social Credit". Early such Committee suggested an outline divided into four parts and it still so suggests.

The first part is phrased as follows:

"Is the Present Credit Money and Banking System adequate to an age of mass production and the demands of a normal standard of living under our present form of government?"

Such Committee "further recommended that speakers be procured from various walks of life so as to obtain different viewpoints on the subject, and submitted" a "list of questions which should be submitted to each speaker".

"The purpose of this is to endeavor to get the viewpoints of various speakers on the same questions, so that ~~such~~ when the first part of the study is completed the Section would have a body of data on opinion on one subject".

Twenty-one such questions so suggested were adopted by this Section, as I understand, for such purpose, but perhaps only for the consideration of the Section at large as yet. The Section numbers over two hundred members and the average attendance of Section meetings in the past has hardly exceeded twenty altho sometimes going as high as fifty or even slightly more.

Sections fourteen and fifteen read as follows:

"14. If the Federal Reserve Bank attempted to stabilize the price level what machinery is available for its use?

"15. Would control of the price level by the Federal Reserve Bank as now constituted mean 'political control'?"

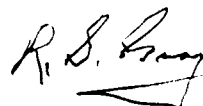
Under the well established Rules and Regulations of the Club all such matters are confidential, that is, not for publication. However, such matters are placed quite fully before all the Section members, as far as practicable, for the use of all of the members of the Section and therefore necessarily, each Section member may and is expected to make whatever use is practicable of such information in the search for data or assistance of any kind from anyone.

It is therefor entirely proper for me, as a corresponding member of the Section, to place before you what appears above in this letter for the purpose of seeking your aid, in any and every way practicable, that will answer or tend to answer either or both of such questions fourteen and fifteen, and this I do.

I realize this letter is open to criticism because of its length and yet I think that you will welcome its spirit and purpose and forgive the defects of its method.

Of course if your response or any portion of it should be held by me as strictly confidential and you will so state that confidence will be explicitly and implicitly maintained.

Yours respectfully,



R. S. Gray, Atty.

P.S. Dr. Ira B. Cross, Professor of Economics of the University of California, and the Head of the Department of Economics, is scheduled to speak tomorrow before the Section on the subject, "Our Banking and Credit System".



As an earnest student of economics and social credit, who does not claim any professional or academic standing in the field of economics but who (through more than forty years of active practice as a lawyer in the State of California) has been brought into very close connection with business of all kinds throughout the United States, the undersigned (as a corresponding member of the Section on Economics of the Commonwealth Club of California) seeks, from any and all available sources, information and constructive criticism, and will welcome any comments on the following memorandum as to social credit but emphatically disclaims all authority to speak for anyone but himself, and he does not claim to fully understand social credit.

MEMORANDUM

What is social credit? A new school of economics.

What is economics? The science of wealth.

What is the essence of social credit?

The balancing of production and consumption by a scientific distribution of money as the medium of exchange.

How is money now distributed?

By wages, salaries, dividends and credit.

What change does social credit propose?

Primarily, Government control of credit on a purely scientific, non-political and statistical basis.

Secondarily, Adjustment of the retail price system with a national dividend system so as to afford ample purchasing power to the consuming class as ultimate consumers.

Technically, what does this involve?

Simply a scientific adjustment of the flow of money, as the prime medium of exchange, in the natural application of the law of demand in the relation of production and consumption, thus enhancing all private initiative with no radical change in either form or essence of a democratic or republican government or the essential habits or customs of its people.

How long and where and with what result has social credit been under discussion and what is claimed for it as an economic remedial agent?

Since about 1918, throughout the world, with an ever increasing interest in all walks of life including the highest of educational circles and governmental activities, with many pending concrete legislative and executive propositions brought forward by international, national and state corporate and other private organizations subject to the study and propaganda of innumerable informal groups of individuals interested therein as private citizens.

The proponents of social credit are positive that it would end war by bringing permanent and ever increasing economic prosperity to all and avoiding the dangers of both Facism and Communism.

The word "War" is used above in the broadest possible sense, for example, including all forms of economic war as distinguished from economic peace.

March, 1935.

**R. S. GRAY, Atty.,
2119 Clement Ave.,
Alameda, California.**

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 14, 1936.

To Mr. Thurston

Subject: Letter of February 5, 1936, from
R. S. Gray, Alameda, California,
to Chairman Eccles.

From Mr. Currie

L.C.

Attached is a suggested reply to Mr. Gray for the Chairman's signature.

For Mr. Eccles' signature
EC

*P.S. - copy of ABA
speech*

February 14, 1936.

Mr. R. S. Gray,
2119 Clement Avenue,
Alameda, California.

Dear Mr. Gray:

I am very appreciative of the kind things you had to say about me. I am also interested in the points you raised and will do my best to answer them.

In the first place, with reference to the recent transaction involving gold certificates, you were quite right in believing that this was a mere formality. The Treasury did not even exchange gold certificates for actual gold but rather for a credit which the Federal Reserve Bank of New York had with the Gold Certificate Fund. The actual gold was taken over from the Federal Reserve banks by the Treasury in 1934, in accordance with the provisions of the Gold Reserve Act of 1934, the reserve banks receiving in exchange a credit with the Gold Certificate Fund. There was, therefore, nothing in the recent operation that limited the Treasury's power to issue any currency authorized by Congress.

In answer to your second question "If the Federal Reserve Bank attempted to stabilize the price level what machinery is available for its use?", I would list the power to buy or sell securities in the open market, the power, within limitations, to raise or lower the reserve requirements of member banks, the power to fix rates at which the reserve banks will lend to member banks, the power to determine margin requirements, and the power to determine the maximum rates of interest paid on time deposits of member banks. In addition, the reserve banks

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may prevent any member banks from abusing the privilege of borrowing reserves from the reserve banks. Whether or not the price level could be stabilized by the exercise of these powers is, as you know, a controversial question. Personally I feel that it could not be done, even were it advisable, solely thru the use of monetary powers.

In answer to your third question, "Would control of the price level by the Federal Reserve Bank as now constituted mean 'political control'?", I would reply in the negative. While the members of the Board of Governors are appointed by the President their terms, leaving out of account an interim period, are for fourteen years. The Federal Reserve Board, even when the Secretary of the Treasury and the Comptroller of the Currency were members, was never influenced by political considerations in reaching its decisions. There should be even less possibility of this occurring in the future. This does not mean that there will not be cooperation with the Government, which I think is essential if we are to achieve any degree of stability. I take it, however, that you did not have in mind cooperation but rather political domination for the purpose of perpetuating the party in power, and there is no danger of this.

I regret that you were unable to be present at the luncheon of the Commonwealth Club I addressed. You may, however, be interested in the summary of my evidence before the House Committee on the Banking Bill, which contains many of my views.

Yours very sincerely,

M. S. Eccles
Chairman

P.S. I am enclosing a stenographic report of the address which I made before the American Bankers Association in New Orleans on November 14, 1935.

LC:em

PC

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R. S. GRAY
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PHONE "ALAMEDA 1985-J"



February 20th, 1936.

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

Dear Mr. Eccles:

I am not the only one deeply appreciating your very kind and generous letter of the fourteenth inst. in response to my letter of the fifth inst., and not only because of your specific answers to certain questions but also because of the enclosures.

Your letter has enabled me to write today several other letters which I have long been holding in abeyance, not because of anything that I quoted from your letter but because your letter and such enclosures cleared up several matters for me so that I felt I could write the other letters without blundering or at least unforgivably.

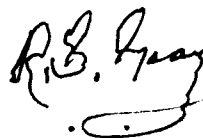
I suppose, as a lawyer, I may have become somewhat over-cautious, not so much for fear of making myself ridiculous as for fear that I may do some needless harm.

I don't know just how much of a sense of humor you may have but I am sure the quality is not entirely lacking in your psychology and therefore I think you may be interested in the following.

Of course you know the literary and scientific worth of what Dr. Stephen Leacock of McGill University, Montreal, has given us, both in the field of Economics and Political Science and in the field of Humor and perhaps the latter is what we need in order to bring all the Social Sciences into line with actualities.

In letter received by me from him today is a reference to his "new volume **THE HELLEMENTS OF HICKONOMICS**, Dodd Mead & Co., New York, April 1, 1936."

Very cordially yours,



R. S. Gray.