

140 Water Street Skowhegan, Maine.

Warriner S. Eccles

April, 17, 1945.

Dear Sir

I have read with a great deal of interest your statements both before the Banking Committee of the Senate and also your statement in reply to Mr Louis Guruth's article in the Financial World of last week and I must say that I don't agree with your philosophy of the functions of government and your conduct as Chairman of the Federal Reserve system.

Ever since you were appointed by the President it has seemed to me that you have agreed with everything that this administration or the President has proposed regardless of its cost, even to making a statement a few years back saying "that a certain amount of speculation and inflation would be good for the country".

But now you have changed your tune and want to stagnate the real estate and stock markets. You say, people will sell real estate and stocks regardless of your proposed regulations of an 18 month holding period. This proves to me conclusively that you do not understand human nature because I nor anyone else would sell during the period when taxes would take 75% of any profit made on the deal.

You also state that you cannot stop the causes of inflation, but you want to curb the results of inflation by taking all the profits out of the sale of both real estate and stocks.

My answer to this is that you have never made any real effort to find out what has brought on this inflation, that is upon us at this moment, because if you had it seems to me that it should have been your duty as a constructive public servant to have pointed out the pitfalls to the President and other high officials of government and in this way called it to the attention of the public so that some forceful and constructive action could have been taken before it got too far along.

Specifically, what I mean to say is this, that the only sacrifices that have been made and the only lines that have been held have been those that industry has tried to hold and these in the face of every obstacle.

Let us suppose that a manufacturer has been met with a situation where his employees have come to him and demanded more money, he has told them in reply that wages are frozen and I can't give it to you. The employees strike and the strike is certified to the War Labor Board. This Board in turn says, we can't give you all that we will give you part of it or we will give you fringe increases,

substandard wages brought up, reactions with pay, night shift increases, checkoff, maintenance of membership and I might say the original 15% increase on which the Little Steel Formula was based.

I hold and I maintain that if the War Labor Board had half tried to say no to some of these demands and backed up industry in general who made some real effort toward holding the line, this country would not be in the condition that it is to-day with all the black markets and prices in general skyrocketing and the smart boy bureaucrats telling Senate committees that there is no Black Market to speak of. This is the illustration of the law of cause and effect that I know of.

The advice of the people to them and to you, is to do a little more thinking, constructing and not destructive in behalf of the common ordinary people and make some real effort to help them solve some of their problems and I might say they have plenty at the present time.

On the other hand you are making an earnest effort to squeeze every bit of profit out of real estate and stocks for the O. P. A. to give away in the line of subsidies. It might be pertinent to ask you, how long can this country continue on this Santa Claus basis?

In our private lives we can only get one, or two at the most, mortgages on our homes and when that money is spent we can't go and do the same thing over again. Neither will it be possible for the government to continue to give away the people's money.

I am for winning this war about everything else at this moment but let us cut out all other unnecessary expenses such as the Missouri Valley Authority now proposed and the St. Lawrence waterway as well.

While I am on the subject, was your voice ever raised in objection to the expenditure of 130,000,000 on the Canal Project?

Was your voice ever raised against the expenditure of another \$125,000,000 on the Alcan Highway?

Was your voice ever raised against overloading the banks with government bonds to the detriment of its depositors? While I feel that these bonds are the safest investment in the world the banks are not to carry such a large proportion of their money in these bonds. In the first place it is inflationary, in the second place all sorts of charges and curbs of every kind have been saddled upon all who have to do business with the banks and the saddest part of it is that the banks that make as many commercial loans as they would like to

because most of their cash is tied up in government bonds.
For your information if you don't know it, one of the charges
that has been saddled upon us since you came into power
has been the payment of 10 cents to have a check cashed on another
bank and also charges against one's account, if the checking
account drops below a certain amount, but the most damaging
of all was when the savings banks dropped their payment of
interest from $4\frac{1}{2}\%$ to 5% down as low as $1\frac{1}{2}\%$ in some cases.
It might be pertinent to ask you who has this hurt if it has
not hurt widows and orphans and even the common
run of laymen like myself?

But the hardest part of this is that the people do not like this
and can do nothing about it, because it is men like you sup-
posed to be servants of the people who are driving them into slav-
ery for outlets for investment of their surplus cash by the
methods I have mentioned above, then when they act and they
real estate or stocks to get a little more income than they
can get in the bank you try to step in and stop it.

It might be pertinent to ask, how much prime paper does the
Federal Reserve hold now in comparison with the years
1927-28-29-30-31? As I recall it that was the real purpose
in establishing the Federal Reserve System but to-day it
acts as a yoke man in taking government bonds to the
tune of untold billions without any word of protest from you
when the limit was asked to be raised to 500 billion dollars.

It might also be pertinent to ask how hard did you fight
to balance the budget during the years between 1932 and
1941? I say this because any statement from you at that
time would have gone a long way toward achieving that
end. I believe you did let out a pipsqueak by saying
eventually we should have a balanced budget.

But not only does a statement count but one must follow
through and point out all expenses of government
that are not absolutely necessary at the time of our great-
est emergency, such as the winking of this war.

I might ask, what do you think of the proposed 6 or 8
billion dollar loan to Russia that is talked about in the
inner circles? Are you going to point out that we can
hardly afford to make a loan of this kind at this time?

Inflation certainly is already upon us when we note the
of of bonds held by the following banks

National City Bank \$2,503,673,850. Chase National Bank of N.Y. \$2,779,461,196.54. First National Bank of Boston \$715,090,512.83. They certainly cannot loan any of this money out to business because this is tied up solidly in government obligations.

Of course they probably could borrow from the Federal Reserve Board against these bonds but that would only be adding to the pyramid.

Now in conclusion I want you to get me right on the above statements. I am for winning this war above anything else and spending every dollar necessary to achieve this objective but for heavens sake stop the waste wherever it appears.

I am enclosing an editorial out of a Democratic paper The Boston Post that speaks for itself by showing how we spend our substance building plants in foreign countries that will compete with our own industries and with a much lower wage scale, can undersell us in the markets of the world. This is indeed serious when we think of Henry Wallace's statement that we must find employment for 60,000,000 people plus paying interest on bonds to the tune of \$300,000,000,000.

There is no doubt going to be surplus materials to the tune of 75 to 100 billion dollars for sale after this war is over, some of this probably could not be helped but certainly some of it could.

I will say frankly that had you wanted to stop inflation, the time to have done so was when the War Labor Board started its work of granting all kinds of round-about increases in wages. Quite naturally all of these increases are immediately translated into costs of production. I am frank to say that subsidies are a false economy in any country and should be abolished at once.

Received in
Chairman's Office

APR 19 1945

Board of Governors
of the
Federal Reserve System

Respectfully Yours
John U. Bergquist

April 20, 1945.

Mr. John U. Bergquist,
140 Water Street,
Skowhegan, Maine.

Dear Mr. Bergquist:

Rarely have I read or received a letter so full of misunderstanding as yours of April 17. It would take a lengthy conversation to furnish you with sufficient comprehension to judge fairly of the matters on which you pronounce such final judgments. Let me see if I can correct a few of the more glaring of your mistakes.

First of all, I have never made the statement which you attribute to me about speculation and inflation being good for the country. Therefore, I have not changed my tune. Both inflation and deflation are destructive, and I have done all in my limited power to suggest ways and means of a practical nature to avoid both extremes. And I have consistently been at this task now for a good many years.

I do not want to stagnate the real estate and stock markets. I would like to eliminate the speculator who contributes nothing to production, but does contribute enormously to instability. You evidently have not the slightest conception of what my proposal was and, accordingly, I enclose a copy of an explanatory statement in case you care to examine it as a matter of simple fairness. I am also enclosing copies of two statements which will indicate to you that some effort has been made on my part to ascertain and discuss publicly the causes of inflation.

I am not interested in personal publicity and do not advertise such recommendations as I have made over the years to those in positions of responsibility. It would be an impropriety to do so in the first place. But, at all odds, you are entirely in error in supposing that I have failed to object to measures and policies that I considered contrary to the national interest.

You are equally misinformed about the banks. There is nothing to prevent their making commercial loans. Government bonds are not forced upon them. The service charges of which you complain were not originated by any Government authority or agency, but originated entirely with the private banks themselves.

Mr. John U. Bergquist - (2)

April 20, 1945

I am at a loss to find words adequate to characterize your description of what you think the Federal Reserve System is or should be and your suggestion that it should oppose the financing of the war. You say you are for winning the war, but almost every recommendation you make would effectively prevent it.

Finally, there is nothing in any law or Executive Order which confers upon me the authority to make decisions for the War Labor Board.

Very truly yours,

M. S. Eccles,
Chairman.

Enclosures 3: Capital gains statement; Radio addresses of June 24, 1942 and April 14, 1943.

 ET:b