607 North Webster Avenue
Scranton, Pennsylvania

January 21st 1946.

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

Dear Sir:

If the United States Treasury has improperly financed the late war, from the point of view of inflation dangers, why try taking it out of the hides of the security owners of American industry?

It is beyond understanding that the Federal Reserve Board should make every few months, such futile attempts to stem an unwanted economic result by persisting in dealing with odd symptoms instead of causes.

Just how effective is this latest edict supposed to be when, at the time of it's announcement, Mr. Truman was completely nullifying it and a good deal more by suggesting a steel wage increase and higher prices for steel products?

How about the marginal payments on cotton, wheat and other commodity trading, land and buildings? Not that putting up 100% of the price of these things would affect the administration's pretense to fight inflation but simply, that all dealings be treated alike.

One might suppose that, from the foregoing, I was engaged in marginal stock trading or in the stock brokerage business. I am in neither one nor the other but become exasperated at times with the emptiness of such worthless proposals from places where one has the right to expect something better and different.

Respectfully yours,
J. J. De Fraine

J. J. De Fraine.

def/m

January 28, 1946.

Mr. J. J. De Fraine,
607 North Webster Avenue,
Scranton, Pennsylvania.

Dear Mr. De Fraine:

There is, of course, no desire on the part of anyone on this Board to take it "out of the hides of the security owners" because the war has not been sufficiently financed out of taxes and savings of the public. I gather from your note of January 21 that you had not seen a personal commentary which I made public when the Board raised margin requirements to 100 per cent and I am, accordingly, enclosing a copy, together with a statement I issued some time ago in this general connection. The purpose of both statements was to point out that the credit side of the picture is not the dangerous one and that credit curbs accordingly cannot reach the major source of inflationary threats, which arise from the unprecendented accumulation of cash or its equivalent available to the public as a result of war financing.

Congress put on this Board a specific responsibility to fix margin requirements on listed securities. It did not give us any authority to deal with commodities, land or buildings. However, an effective capital gains tax would curb speculation in such capital assets as well as in securities. I would assume from the tone and argument of your letter that you would favor such a proposal because it would get at the real source of speculative activity at this juncture. Basically, of course, as I sought to point out, the difficulty arises from the fact that the debt has grown to such huge proportions without adequate taxation or public borrowing to finance it.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures 2

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