

Texon, Texas
Box 522
Feb. 6, 1946

Federal Reserve Board,
Washington, D. C.

Gentlemen:

Few of the thousands, who disapprove of your arbitrary manner in handling economic matters, will take the time and trouble to offer criticism. Though my protest may fall on deaf ears, I protest maintaining stock market margins above 50%; for reasons as follows:

1. Like most other government regulations that I have had the misfortune to come in contact with, it works to the advantage of those who possess wealth and to the disadvantage of those of meager means. Those of limited means must forego taking advantage of any bargains that remain, while the wealthy are able to take advantage of them. Later on, the wealthy will be able to unload on the little fish at highly inflated prices when the high margins are cut in half.

2. By increasing the margin requirements, the Government has gratuitously conducted a shake out for the benefit of Wall Street. The increase of margins is calculated to depress stock prices, and does so irrespective of values or earning power. Thus pressure is put on the small trader to sell at a disadvantage, while the wealthy are able to take advantage of this pressure selling. This is the same kind of protection that I have experienced before; taking money out of the little man's pocket and putting it in the big man's pocket. Why depress the price of a stock that is selling at less than its value, from a dividend and earnings standpoint, in order to depress the price on stocks selling for three or four times what they are worth now, or show any chance of ever being worth in the future. If you would warn the public, through their brokers, against buying highly inflated, highly speculative stocks, you would then be doing a service rather than a disservice as now.

3. When accounts are frozen, the little investor is hindered from getting out of a stock that he discovers is not measuring up to his standards and getting into one more stable. An account must be liquid if it is to function to advantage. While it is wise much of the time to have all of one's stocks paid for in full and with surplus cash in addition; there are other times when it is advantageous to use one's credit to a reasonable extent.

4. The Government has borrowed most of the common man's money, the borrowing now nearing the 100% mark of the total wealth of the Nation; yet it seeks to restrain him from borrowing even 1% on the value of securities he may hold. No creditor is likely to feel kindly toward a debtor who would try to prevent him from borrowing from another. He would be inclined to tell him to pay up and he wouldn't have to borrow. Also, while the Government thus acts in restraint of trade against its own people, it presumes to take four and a half billions of dollars out of the peoples pockets and lend it (without

any security, and with the almost certain prospects of never getting it back) to the greatest and richest empire on earth. And for what purpose but to pay for the establishment of an experimental form of government, and to subsidize their home industries while they cut our economic throat. If the people of Britain need help, it should be given them; but the Government of Britain should be more able to stand on its own feet than the lesser nations who receive little or no help. Why should the American taxpayer be the fall guy for the whole world?

5. Those who own cattle, sheep, hogs, lands, or commodities, can borrow at will. Why should the Government discriminate against those who own stocks? All are not situated so they can own cattle or sheep, or hogs; some must invest in other forms of wealth. They must put their dollars to work or see them become worth less and less as inflation continues. Does the Government expect the common man to remain inactive while inflation and taxation pauperize him? Also the investor in securities is discriminated against in favor of those who trade in cotton and other commodities. The cotton trader puts up less than 10% of the value of cotton while the legitimate investor in stocks is required to put up 100%.

6. The high margin requirements are based on the presumption that high security prices cause inflation, when in fact it is the other way around; inflation causes high security prices, the market merely recording the extent of the inflation when allowed to operate unshackled. You may prevent the indicator from properly recording the inflation and stick your head in the sand to hide from it, but the inflation is not thereby diminished. Inflation has been with us for several years and will remain as long as basic conditions sustain it.

7. Your restraints will have little or no permanent effect on the market; as you have seen, the market (after the shake out) has continued its advance. Before the peak of prices is reached, the same crafty boys on Wall Street, who have made it appear plausible to the Administration to cut out the margins, will in due time induce them to lower the margins to 40% or less, that they may get the sheep into the sheering pens. Will the common man be allowed to manage his own affairs only after he has none to manage?

Sincerely yours,

A handwritten signature in cursive script, appearing to read "T. Stewart", written over a horizontal line.

February 11, 1946.

Mr. T. Stewart,
Box 522,
Texon, Texas.

Dear Mr. Stewart:

I have noted the criticisms in your letter of February 6 in regard to the Board's action in placing margin requirements on a 100 per cent basis. I trust that our ears are not deaf or our eyes blind to the arguments you make, which have been repeatedly made and given consideration. I suppose the place really to present your viewpoint would be to Congress which enacted the law, under the terms of which we are required to prevent excessive use of credit for the purpose of buying or carrying listed securities. I have not the slightest doubt in my own mind that any use of borrowed dollars to buy stocks in wartime or in an inflationary period such as confronts us now is excessive. You might possibly be interested in a statement I issued when the action was taken and I am, accordingly, enclosing a copy.

Unfortunately you are mistaken in imagining that the Government has "borrowed most of the common man's money." If more had been borrowed or obtained by taxation we would not have created the enormous volume of bank credit which is the basic cause of the inflationary problem.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

ET:b