

LITTLE'S POINT
SWAMPSCOTT, MASS.

JOHN H. FAHEY

August 10, 1950

Mr. Marriner S. Eccles
The Shoreham
Washington, D. C.

Dear Marriner:

I assume that you are back in Washington by now. The newspapers here carried an all too brief reference to an address which you delivered in Salt Lake City on the subject of inflation and our present financial problems. If the address has been mimeographed or printed, I would appreciate it if you would send me a couple of copies. I know I would find it most interesting. I certainly agreed with you as to the dangers in our present inflationary situation and the troubles we may confront under present and prospective conditions unless we watch out. Personally, I think the inflated home mortgage situation is one of our most disturbing factors. As I understand it, the Senate Banking and Currency Committee has just approved legislation under which the Federal Reserve Board would, under some circumstances, make regulations intended to control the mortgage situation from now on. I think this is most important and I hope that the regulations will prove realistic and effective. It is reported that Ernest Fisher, formerly connected with the Federal Housing Administration and now at Columbia University, has been, or will be, selected as an advisor to the Board of Governors in the formulation of the proposed regulations. Of course, I have been pretty familiar with Fisher's work in the Home Mortgage field and, generally speaking, I have a good impression of him. I feel, however, that his approach to the problem is highly academic and if the Board of Governors is going to work this problem out successfully, it will be wise to also get the views of the officers of lending institutions who have had direct responsibility for mortgage making for long years. I regret to say that, in my opinion, too many of the savings and loan associations in some sections of the country, since the war, have been making home loans that may prove pretty dangerous in the event of a pinch.

I understand the Presidents of the Federal Reserve Banks are due to meet in Boston some time in the latter part of this month. Will you be here at that time? If so, can we persuade you to come down here before you go back to Washington? I think we

could make you comfortable and we certainly would be delighted to see you here. If you are not coming to Boston at the time of the Presidents' meeting, are you likely to be up this way any time in the near future, or do you expect to be in Washington most of the time from now on?

Margaret joins me in sending you very best wishes.

Sincerely yours,

A handwritten signature in dark ink, appearing to be the initials 'J.H.F.' with a stylized flourish.

Form F. R. 511(a)

TO _____

FROM _____

Wednesday, Aug. 16, 1950

REMARKS:

4:20 Secretary's Office called to advise that Mr. Chas. T. Fisher, Jr., President, National Bank of Detroit, will be at the Board, at the invitation of the Board, to help draft regulations on real estate credit.

He will occupy Mr. Paulger's office.

GOVERNOR ECCLES' OFFICE

August 18, 1950.

Dear Mr. Fahey:

Thanks for your letter of August 10th, which I have read with a great deal of interest. I am always glad to hear from you and to have your views.

The newspaper statement, to which you refer, was a written interview I gave to the Salt Lake Tribune when I was in Salt Lake City on July 13, the day before the President's Message to Congress; in fact, it was a memorandum which I had prepared for Senators Douglas, Taft and Fulbright and also for Symington and Keyserling as a result of conferences which I had with them just prior to my leaving for Utah the week before. As you suggest, I am enclosing herewith a copy for your information. If I were preparing it today I would point it up more in several particulars, particularly the necessity of putting the government on a pay-as-you-go basis, i.e., avoid deficit financing as a must requirement if monetary and credit restraint by the banking system is to be effective. Selective credit controls by themselves are entirely inadequate. The proposed legislation to give the Federal Reserve Board authority to control mortgage credit on new construction as now drafted cannot be made effective because it excludes government agencies such as the Veterans and the F.H.A., which are the real source of inflationary mortgage credit.

I know nothing about the report that Ernest Fisher, formerly connected with the Federal Housing Administration and now at Columbia University, has been or will be selected as an advisor to the Board of Governors in the formulation of the proposed regulations. I do know that Charles T. Fisher, Jr., President of the National Bank of Detroit, was invited by McCabe to help draft the regulations covering real estate credit and that he accepted -- this was not my idea. It may be that the report got Ernest Fisher confused with him. I doubt if he (Charles) can add anything to the talent already available in the Federal Reserve System. There no doubt are some very able men connected with lending institutions who have had a great deal of direct responsibility for mortgage lending for many years. I don't recall Ernest Fisher and therefore I don't know anything about his work. I have not paid a great deal of attention to the Board's activities for several months, having been out West twice during that time and working on a book the balance of the time.

I agree with you that the savings and loan companies in every section of the country have been making excessive mortgage loans on a basis of greatly inflated values.

#2 - 8/18/50 - Mr. John Fahey

It is true that the Presidents of the Reserve Banks are meeting in Boston (September 21-22), but the Board is not meeting with them there -- they are coming to Washington the following week to meet with the Board. I regret to say that I am not planning on coming to Boston in the near future. If I were I would be delighted to see you and Mrs. Fahey and to accept your very kind invitation to come down to your place on Swampscott. I am planning to be out West about half the time after the first week in September until the first of December, and then, if not before, I expect to leave here permanently if I continue to feel as I do now about the Washington scene. I am so disgusted, frustrated and feel so ineffective that I don't believe it is good for me or for the country for me to continue on the Federal Reserve Board.

With kindest personal regards and best wishes,

Sincerely yours,

M. S. Eccles.

Hon. John H. Fahey,
Little's Point,
Swampscott, Mass.

P.S. You will be interested to read the enclosed press release issued today, which is counter to the Treasury's release, also issued today, announcing its September and October financing. While I am here I intend to do all I can to get the Federal Reserve to carry out anti-inflationary policies - such as referred to statement.

M.

LITTLE'S POINT
SWAMPSCOTT, MASS.

JOHN H. FAHEY

September 6, 1950

Mr. Mariner S. Eccles
The Shoreham
Washington, D. C.

Dear Mariner:

I received the Salt Lake Story and accompanying material and appreciated very much the opportunity of reading it. You certainly keep hitting the center of the bull's-eye all of the time. As you know, I have long agreed with you as to the trend of things.

Of course, I have watched the housing field particularly, and a lot of people talk to me about it. If we are able to escape a bad collapse in that field by and by, it will surely be a miracle. At last some of the courageous architects in this part of the country are beginning to open up in public relative to the outrageous prices that people are being forced to pay for the poorest quality homes we have ever thrown together in this country. The insurance of mortgages at levels which remove all responsibility from the builders or lenders has contributed in a big way to prevailing conditions. I hope that following the enactment of the Defense Production Bill some controls will be established which will at least stop the trends which have developed in the last few weeks.

I am indeed sorry that you feel you must drop out of the Board in the near future. Of course, I understand fully your reasons, and under similar circumstances I am sure I would reach the same conclusion. Nevertheless, I think it will be a great loss to the country if you withdraw at this critical period. I have no doubt as to our final success in Korea or in a full-scale war, but what may happen to our financial structure and our whole economy is quite another matter.

I expect to be in Washington on September 12th and to stay through the meetings of the Business Advisory Council which end on the 14th. By any chance, will you be free on the evening of the 12th? I would like so much to talk with you while I am in Washington. I am going to be at the Mayflower. Can you have dinner with me there that evening at any hour which would meet your convenience?

With every good wish.

Sincerely,


John H. Fahey