

The Papers of Eugene Meyer (mss52019)

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Subject File, Federal Reserve System, Board of Governors, 1940-51

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE SYSTEM
BOARD OF GOVERNORS
1940-51



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

December 19, 1940.

Dear Mr. Meyer:

It was my misfortune not to have an opportunity to lunch with you when you were here, but I do not have to explain to you the difficulties of getting detached from the machinery of this office.

What I had in mind was that I had remarked yesterday that I hoped you would feel at liberty to come over to luncheon whenever you wished to do so. I gather from Elliott Thurston that you took this as a gesture rather than a definite invitation. Hence, I wanted to send you this note to make it formal, factual and binding that we would be happy to see you at luncheon whenever it suits your convenience.

Sincerely yours,

Mr. Eugene Meyer, Publisher,
The Washington Post,
Washington, D. C.

December 21, 1940.

Honorable Marriner S. Eccles,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

My dear Mr. Eccles:

Thank you for your letter of the nineteenth and your friendly invitation which, I understand, permits me to become a signing member of your luncheon room.

I appreciate this courtesy and I will not fail to avail myself of the invitation.

With best wishes to you and Mrs. Eccles and the family for a Merry Christmas and a Happy New Year, I remain

Sincerely yours,

FRASER
Eugene Meyer



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25

DEC 14 1944

OFFICE OF THE CHAIRMAN

December 13, 1944.

Dear Mr. Meyer:

The editorial in this morning's Post, entitled "Not of this World", commenting on resolutions of the National Association of Manufacturers is so excellent that I could not refrain from sending you this note of warm approval.

I was so disheartened by these resolutions that I read several of them at a meeting of the Board with the presidents of the Federal Reserve Banks to emphasize how much educational work needs yet to be done to bring about a better appreciation of present day realities. I wish I had had your editorial at that meeting because the matter, in my opinion, could not be better stated.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "W. Stewart". The signature is fluid and cursive, written over a faint, illegible stamp or watermark.

Mr. Eugene Meyer,
Editor and Publisher,
The Washington Post,
Washington, D. C.

This document is protected by copyright and has been removed.

Author(s):

Article Title: Not of this World

Journal Title: Washington Post

Volume Number:

Issue Number:

Date: December 13, 1944

Page Numbers:

September 24, 1946

My dear Mr. Szymczak:

I just received your letter of the 18th. It looks as though you are having a very interesting time and I am sure it will become more so as you get into the work.

I am enclosing clipping of an article written by the Editor of the Washington Post, Herbert Elliston, who was abroad very recently with my son-in-law, Philip L. Graham. They had an interesting visit with General Clay and spent some time in Frankfurt, Hamburg and other German areas, as well as Vienna and Trieste, and also spent considerable time with our people in Paris.

With kind regards, I remain,

Sincerely yours,

Eugene Meyer

Hon. M. S. Szymczak,
Chief, Trade and Commerce Branch,
Office of Military Government for Germany,
Economics Division,
Trade & Commerce Branch,
APO 742,
Postmaster, New York, N. Y.

EM:cfp

OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U.S.)
Economics Division
Trade & Commerce Branch
APO 742

SEP 24 REC'D

18 September 1946

Mr. Eugene Meyer
c/o Washington Post
Washington, D. C.

Dear Mr. Meyer:

I arrived here August 31st and have been busy since trying to get oriented. Military Government procedure is something one has to learn and follow. It is a bit difficult because of what appears to be unnecessary delay but I am applying myself to what is known as "operating thru channels".

I have had one session with General Clay and have met many others in OMGUS here in Berlin. I have just returned from a tour of the U.S. Zone where I saw our Trade and Commerce people at Frankfurt, Wiesbaden, Stuttgart and Munich. It happened that my stop over in Stuttgart coincided with the day of Byrnes' speech, and it was interesting to hear him in person.

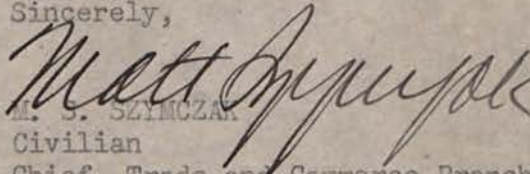
I attended an excellent exhibition of export goods in Stuttgart and Munich. The exhibitions are quite inspiring, and now all we need are imports of certain raw materials such as coal, steel, iron etc. in order to export. There are other bottlenecks, of course, such as the Trading with the Enemy Act, lack of exchange rate, etc. So far we are exporting raw materials such as lumber and hops. What we should be doing is conserving the raw materials for use in production.

I have just returned from a meeting with the Dutch at The Hague.

In spite of all the obstacles the job is interesting and challenging. I like it and will stay with it.

With kindest personal regards,

Sincerely,


M. S. SZIMCZAK
Civilian
Chief, Trade and Commerce Branch

NOV 6 REC'D

OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U. S.)
Economics Division
APO 742

29 October 1946

Dear Mr. Meyer:

Thank you for your letter of September 24 and for the interesting clipping you enclosed.

I am sure Mr. Elliston and your son-in-law had an interesting and fruitful visit with General Clay when they were in Europe. I can say only the best things about General Clay. He is a wonderful man, an able and devoted public servant. Both he and General Draper, who is also one of the best, inspire me with the work they do and the way in which they do it.

As I wrote you earlier, I have been making trips to other countries and am quite busy here on the Berlin "front" as well.

Our organization is relatively small with only about 60 people in the Branch, but the amount of work to be done is without limit. However, the devotion and sincerity of all the Military Government people here is truly a great inspiration! If only our people at home knew they would be ever grateful.

Our appropriations are very small and they have been regularly reduced by Congress. The appropriations are intended to provide merely the bare necessities for a minimum standard of living to prevent disease and unrest. Therefore, additional funds are required, and these funds are obtained by such exports as are possible from which we obtain dollars to use either for further imports of materials and supplies to produce goods for further exports, or to provide the bare necessities of life to prevent disease and unrest. We have now about $5\frac{1}{2}$ million dollars in the funds obtained from exports and we have sold about 24 million dollars worth of exports consisting mainly of lumber, potash, salt, hops, and goods that were on the shelves at the time of the German collapse, as well as goods manufactured from stocks in existence at the time of the German defeat. Now we must obtain other raw materials and supplies for purposes of manufacture of further goods in order to increase the exports from the American Zone. This is a problem!

In addition to the above, I have been busily engaged on price control, rationing, and such interzonal trade as possible. However, in interzonal trade and price control we merely decide on policies, and the Germans through the Landerrat (the German Government) administer the policies. The other Military Governments do not pursue the same procedure. Our policy is to leave as much as possible for the Germans to do in order that they may become fully aware of their responsibilities as individuals and thus follow the democratic principles which we hope they will one day learn to do.

Regularly every Saturday morning General Clay has a staff meeting attended by the heads of the divisions and heads of some of the more important branches of the American Military Government. This is usually the most important meeting of the week. Once every ten days I attend a Quadripartite meeting of Trade and Commerce. This is attended by representatives of all four occupying forces in Trade and Commerce. Each month the chairman rotates so that in four months each of the four chiefs of Trade and Commerce has had a chance to serve as chairman at the Quadripartite meetings. I become chairman in December. General policies on Trade and Commerce (export-import, price control, rationing, and interzonal trade) are discussed and adopted, and referred to a higher level for further consideration and action. Every Wednesday morning at 8:30 a.m. we have a staff meeting of the Economic Division. General Draper presides, and all of the branch chiefs of the Division attend.

I think I mentioned to you my trip to The Hague. After returning from that trip, I met with a Swiss trade delegation for several days arranging a program of trade relations. This was a very successful meeting. The Swiss, as you know, have dollar exchange.

Following this, I left for Minden, Germany, which will be the headquarters for the Economic Division of the British and American occupying forces in the bizonal arrangement. Spent one day in conferences with the British and the German representatives. Soon most of my export-import organization will have its quarters at Minden, and here in Berlin we shall have just a small policy group in Trade and Commerce. Minden is in the British Zone, but both American and British Zones will be considered one area of Germany. It seems to me that soon the French will join this area and I hope that eventually the Soviet will do the same. Have been attending many bizonal meetings in Berlin, making arrangements on details, etc.

Upon my return to Berlin from Minden, I was busy for five or six days with the Washington delegation, including Assistant Secretary of War Petersen, George Allen of RFC, DeWitt Schieck of U.S.C.C., regarding arrangements for financing necessary imports to produce goods for export. We have finally arrived at a conclusion which provides for advances for necessary imports of raw materials and supplies required to produce goods for export. The contract is now being signed.

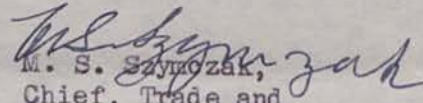
The Washington delegation had scarcely left when General Draper, Colonel Hester of Food and Agriculture, and I left for Prague, Czechoslovakia. There we had several days of meetings on trade and commerce with the Czechoslovakian delegation. Lists were exchanged, purchases of coal, Kaolin, clay, seed potatoes, etc., were made and other arrangements were provided for. We returned from Prague Sunday night, the 20th.

This is all somewhat wearing on the constitution so I am taking a few days off to rest and to get caught up with my required reading--which has been sadly neglected--as the doctor ordered me home Wednesday last week to bed.

I hope that all is going well with you at the International Bank. I'm always glad to hear the news from the States and hope you get a chance to write now and then.

Kindest personal regards.

Cordially yours,


M. S. Szymczak,
Chief, Trade and
Commerce Branch.

P. S. As I mentioned above, we have much need for more personal in our Branch to handle the work load. This is particularly true of Export-Import Section where we need, badly, experienced foreign trade men. I have been assured by General Draper that we shall be able to increase the professional personnel in the Export-Import Section by 23, and I wonder if you have any suggestions of experienced men in the foreign trade field. Many of the people we have are willing to work but have had very little practical experience before arriving here. Bob Trier, my chief deputy, will be going to the States in November to help recruit foreign trade men, and if you in a position to put us in touch with some good prospects with this experience it would be a great help to us. Perhaps you will let me hear from you on this subject at an early date.

Mr. Eugene Meyer,
International Bank for Reconstruction
and Development,
Washington, D. C.

Fred W. Bd.

November 9, 1946

My dear Mr. Szymczak:

Thank you for your interesting letter of October 29. I note particularly your request for recommendations of foreign trade men.

I confess that, being in Washington for about the last 30 years, my contact with these men has been cut off. I suggest that you might get in touch with either the Foreign and Domestic Commerce Division of the Department of Commerce, the U. S. Chamber of Commerce or the Foreign Trade Council with respect to the kind of people you might be interested in getting. There used to be something called the American Manufacturers Export Association but I do not know whether it still exists or how good it is.

A man I happened to see last week, Robert Patchin of W. R. Grace & Co., New York City, might be a man whom you would wish to consult about people or about advice to whom to apply to get people.

With cordial regards and best wishes, I remain,

Sincerely yours,

Eugene Meyer

Honorable M. S. Szymczak,
Chief, Trade and Commerce Branch,
Economics Division,
Office of Military Government for Germany,
APO 742, c/o Postmaster,
New York, N. Y.

OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U. S.)
Economics Division
APO 742

20 November 1946

NOV 25 REC'D

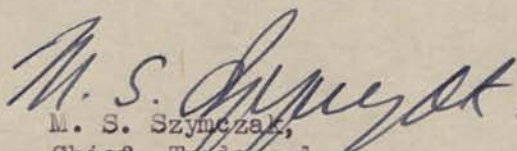
Dear Mr. Meyer:

Thank you for your letter of November 9.

I appreciate having the name of Mr. Robert Patchin of W. R. Grace & Co., New York, as a person with whom we might consult for suggestions in our recruiting program. I am asking Mr. Trier to get in touch with him when he is in New York interviewing foreign trade men. I am also giving Mr. Trier a letter of introduction to you with the idea that you may have thought of others since you wrote me.

Kindest personal regards.

Cordially yours,


M. S. Szymczak,
Chief, Trade and
Commerce Branch

Mr. Eugene Meyer, President,
International Bank for Reconstruction
and Development,
Washington 6, D. C.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Dear Mr. Meyer -
If you have time -
please read this -
my talk last night
was based on this
paper. Think we
agree - Hope you like
it - Matt Sympson
p.s. are

Let me
congratulate you
again on the very
able and profound
talk you delivered
last night. It was
most inspiring!

July 20, 1948

Dear Mr. McCabe:

Many thanks for the photograph you were good enough to send me. From this I see that your clothes fit you as well, I hope and believe, as you may fit your job.

With kind regards, I remain,

Sincerely yours,

Eugene Meyer

Honorable Thomas B. McCabe, Chairman,
Federal Reserve System,
Federal Reserve Building,
Washington 25, D. C.

August 11, 1948

Dear Mr. Morrill:

Thank you for your letter of the 10th. I have a copy of the Act of March 3, 1919 in my files.

Accept my thanks for your kindness and help.

Sincerely yours,

Eugene Meyer

Mr. Chester Morrill,
Board of Governors,
Federal Reserve System,
Washington 25, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

AUG 11

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 10, 1948,

Mr. Eugene Meyer,
c/o The Washington Post,
Washington, D. C.

Dear Mr. Meyer:

I am pleased to be able to answer the question which you asked over the 'phone this afternoon. There was no amendment of the portion of the law under which the Capital Issues Committee was created.

The law creating this Committee was Title II of the Act of April 5, 1918 which in Title I also created the War Finance Corporation. The Capital Issues Committee was authorized to investigate, pass upon, and determine whether it was compatible with the national interest that there should be sold or offered for sale or for subscription any issue or any part of any issue of securities issued by any person, firm, corporation or association, the total or aggregate par or face value of which issue and any other securities issued by the same person, firm, corporation or association since the passage of this Act was in excess of \$100,000. There were certain limitations in the law upon the extent of this authority. The Committee was composed of 7 members appointed by the President of the United States and confirmed by the Senate, and it was required that at least three of the members be members of the Federal Reserve Board. The President named from the Federal Reserve Board Messrs Charles S. Hamlin, Mr. John Skelton Williams and Mr. Frederick A. Delano and, in addition, Messrs. James B. Brown of Louisville, Kentucky, John S. Drum of San Francisco, California, Frederick H. Goff of Cleveland, Ohio, and Henry C. Flower of Kansas City, Missouri. This Committee superseded a Capital Issues Committee which had previously been established by the Federal Reserve Board. It continued in existence until the end of 1918 when its work was voluntarily suspended by the Committee. While the Committee was not actually dissolved at that time and remained inactive, the President, by proclamation dated August 30, 1919, terminated the authority and later it was formally suspended by Joint Resolution of Congress approved March 3, 1921.

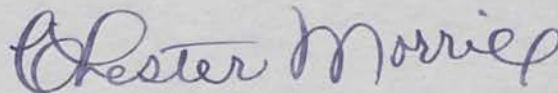
The history of the Committee is contained in various pages of the Federal Reserve Bulletin for 1918 and 1919.

Mr. Eugene Meyer

-2-

Apropos of your comment upon the selective credit control character of this law, it might be in order to mention that in the announcement by the Committee of the suspension of its work, the statement was made that in the opinion of the Committee the sale of worthless and fraudulent securities should be restrained in times of peace as well as in war, and the Committee strongly urged that Congress establish adequate machinery to put a stop to this traffic. At the same time, Secretary Glass also issued a statement expressing substantially the same opinion and recommendation.

Very truly yours,

A handwritten signature in blue ink that reads "Chester Morrill". The signature is written in a cursive style with a large, prominent initial "C".

Chester Morrill,
Special Adviser.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 12, 1946

Mr. Floyd Harrison,
International Bank for Reconstruction,
Room 1023,
1818 H Street N.W.,
Washington, D.C.

Dear Mr. Harrison:

In response to your request to Mr. Morrill
I am sending you as a loan from our Library the following
publications:

- (1) Agreement regarding the distribution
of the Dawes annuities (Dawes Plan)
- (2) American Bankers Association
The Young plan...with a comparison
with the Dawes plan.

I hope that these documents will answer your
question.

Very truly yours,

Alvern H. Sutherland

Alvern H. Sutherland
Librarian

*Returned on Sept. 17 by messenger
CJP*

October 21, 1947

Dear Mr. Szymczak:

Thank you for sending me your speech on "Our Current Inflation and Monetary Problems". I shall read it with great pleasure.

It was a pleasure to hear you state the problems so clearly. The same embarrassment arose, as you probably well know, after the last war with obligations of the Treasury in the discount market. Your obligations and involvements with the Treasury are much greater and much more embarrassing now.

With kind regards, I remain,

Sincerely yours,

Eugene Meyer

Mr. M. S. Szymczak,
Board of Governors,
Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

OUR CURRENT INFLATION AND MONETARY PROBLEM

by

M. S. SZYMCAK

Member
Board of Governors of the Federal Reserve System
Washington, D. C.

Delivered before

Fall Meeting

District of Columbia Bankers Association

8:00 P. M. - October 20, 1947

Mayflower Hotel

FOR RELEASE AT TIME OF DELIVERY

OUR CURRENT INFLATION AND MONETARY PROBLEM

With little pause after fighting and winning the most costly war in history, we are now facing a crucial battle against inflation. This is not altogether surprising. It was necessary for us to create a huge amount of money in order to finance the war and at the same time to restrict the availability of goods and services for which the public would customarily use additional money. To complicate our domestic problem there is the necessity of helping to restore the productive capacity of countries whose populations and resources have been ravished by war.

My remarks to you this evening are addressed primarily to the domestic phases of our inflation problem. Some weeks ago, in a paper that I shall be glad to make available to you, I reviewed the international phases of this problem with particular reference to Germany, a defeated enemy country. Here it is sufficient to say that the present economic difficulties of European democracy are inextricably entangled with our own problem. It would be foolhardy to deny that aiding in their reconstruction will amplify our own inflationary curve, but it would be equally foolhardy to assume that we can put our own house in order while large areas of the world are in chaos.

Without our own volition, we have been catapulted into a position of world leadership, and in the interest of our own stability and welfare, we must assume the responsibilities of this leadership. The greatest single antidote for inflation is increased production. Our own productive capacity is already running at full speed and the largest immediate reservoir of unused productive resources is in Europe. The answer to this part of our problem is clearcut. I know you will concur in my belief that we are qualified to take the measure of this problem and, in cooperation with other nations, to find constructive ways of helping devastated European countries to help themselves.

This hydra-headed problem of inflation cannot be mastered for all time by any single device or any single approach. But with a proper combination of effective policies we have reason to hope that we still can establish a lasting prosperity at home and contribute to enduring peace in the world.

We have been a little tardy in lining up our forces against inflation. Weary of the disciplines of war, we have been prone to rest on our oars and drift with the current. Inequities have already been worked on the recipients of fixed incomes by the arbitrary transfer of part of their purchasing power to classes benefiting immediately from rising prices. This process must be stopped if we are to avoid the cataclysmic consequences of a run-a-way inflation.

Extent of price inflation

During wartime, price and other controls kept our own inflationary forces under check, if not under complete restraint. It was not until after the lapse of these controls in the early summer of 1946 that inflation carried many commodity prices to new high levels. Essentially temporary shortages in supply have contributed greatly to successive spurts in the prices of many goods. The rising cost of living has necessitated widespread wage and salary adjustments that have raised production costs and justified many price increases. In many instances, however, price ad-

vances have exceeded increased costs and have helped to generate record profits.* The combination of these factors has entangled the economy in what appears to be an irresistible upward spiral of wages, costs, and prices.

Let us compare some of our current prices with those prevailing before the war. Corn before the war was selling at 45 cents per bushel, now it is \$2.45. Hog prices were \$6.75 per hundredweight, now they are \$29.50. Cotton was 9 cents a pound and is now 32 cents. Lead prices were 5 cents a pound and now they are 15 cents. Southern pine lumber prices were \$22 per thousand and now they are \$80.

These are only examples of important primary commodities that have risen from 200 to 400 per cent since prewar days. In general, advances in prices of primary commodities have been much greater since the outbreak of war in 1939 than they were between 1914 and the peak of the postwar inflationary period in 1920.

The average level of all wholesale prices, including primary commodities as well as manufactured goods, is now 110 per cent above the prewar level and the retail prices of many goods have risen by almost the same proportion. Retail food prices have advanced by more than 100 per cent and clothing and housefurnishings are up 85 to 100 per cent. With rents up only 10 per cent, the rise in cost of living shown by the consumers' price index is about 65 per cent.

Prices were already high during the war and the early postwar period. When price controls were dropped last year, prices rose considerably further. Since June 1946 the average level of wholesale prices has risen 40 per cent and the cost of living 22 per cent. This spring prices showed signs of downward readjustment, but domestic and foreign developments since that time have resulted in another sharp upswing.

Inflation problems

Our sharply inflated price levels are unstable elements in the nation's economic position and the higher prices rise, the more unstable they become. This is because disparities among prices develop with inflation and become greater and greater as inflation proceeds. Thus inflation begets inflation and in the process produces economic dislocations and distortions that bear the seed of ultimate collapse and widespread unemployment.

Let us consider some of the critical tensions that attend current inflationary developments.

Prices are becoming more and more dependent on buyers' demands, which in turn are dependent on other inflated prices. Inequities and discontent are multiplying. Consumption in some directions is being curtailed because the rise in prices is greater than the expansion in incomes. Price increases are making the problem of financing foreign aid and recovery particularly difficult. Foreign countries with limited dollar resources are finding the loss of purchasing power of these dollars a serious handicap.

While organized labor has been able to obtain wage increases to cover a part of the increase in living costs, the majority of con-

*Cotton textile manufacturers, paper mills, lumber producers, automobile dealers and wheat farmers, to cite a few examples, are making several times the profit returns of prewar years.

sumers have been in a less favorable position. Consumers with relatively fixed incomes, especially those in the low income groups, are being forced to curtail their purchases of goods, to reduce current saving, and to draw heavily on accumulated savings. In short, they are fighting a losing battle against the cost of living.

It is important to recognize that the present upward price spiral reflects in part essentially transitory developments. These include the persistence of wartime disruptions in production and trade, deferred private demands for investment and consumption, a rapid expansion in credit extended by private organizations to business and consumers, and unusually large Government expenditures for military purposes and foreign aid. Undoubtedly, too, the upward surge of prices is being pressed by speculative forces, but the extent of this speculation will only become evident after the cumulative force of these special transitory factors has been spent.

The higher prices rise in an inflation, the more widespread and severe the subsequent readjustments are likely to be. Inevitable readjustments will affect not only prices, but production, incomes, and employment as well. The uneven character of demand, together with the special and in part temporary character of supply, has already brought striking readjustments in price relationships.

The higher production costs generated by inflation are becoming imbedded in the price structure. This development foreshadows an eventual price level substantially higher than that prevailing before the war. Since inflations tend ultimately to end in collapse and deflation, it is probable that the price level established when the liquidation of inflation is complete will be sharply below peaks reached in the present upward spiral of prices.

Breaking the inflation circle

Clearly, a primary factor in the postwar price inflation is the increase of 160 billion dollars in money and other liquid assets which occurred during the period of the war. This huge accumulation of money and liquid assets was the direct result of Government borrowing to finance war. It was essential to winning the war.

At the war's end these monetary assets represented an enormous backlog of deferred demand for goods of all types, but particularly durable goods. As a consequence, demand at current prices was far in excess of any supplies of goods that were available or could be quickly made available. The result, when wartime controls were removed, was a sharp rise in prices and the spiral of inflation that is still going on. The sooner this spiral is broken, the better off our people and our economy will be. Also, the nearer at hand will be the goal of sustained high levels of production and employment.

Today, the country's aggregate stock of money and other liquid assets exceeds 225 billion dollars, an amount about equal to the total national product. Prior to the war, aggregate liquid assets approximated only 65 billion dollars, or nearly one-third less than total product. Since redundancy of money and liquid assets is a primary factor in the present inflationary spiral, attack on this strategic factor is an essential requirement for breaking the circle of rising prices. The difficulty confronting any such attack, however, is that the existing supply of money and liquid assets is based on public debt issued to finance war.

We can only reduce the volume of Federal debt by having a budget surplus. With a Government debt of 260 billion dollars, it is

clear that a surplus in any one year will not greatly reduce the total. For the current fiscal year, the President has recently estimated that we may have a budget surplus of 5 billion dollars that will be available for debt retirement. With the further rise in national income that we have been experiencing, the available surplus may exceed the President's estimate. But the new budget assumed no reduction in taxes. It also assumed no increase in Government expenditures, such as may be necessary to fulfill the nation's international obligations under the proposed program for European relief and recovery. Thus, the amount available for debt retirement this fiscal year may actually be less than currently seems possible.

Reduction in public debt through retirement from budget surpluses will be a slow process at best. Not every year will budget conditions be so favorable as this year. But it is urgent that we use debt retirement whenever possible and that we continue to do so while we are confronted by acute inflationary dangers. In the present situation, this means, of course, that moderation should be the rule to govern any immediate adjustments in our tax structure.

The problem of restraining further bank credit expansion

Six months ago it appeared that postwar expansion in the money supply had been effectively brought under control and that our answer to the inflation problem was to increase production to a level consistent with the existing volume of money. Since business was already operating near full capacity, however, expansion of output appeared to be a time-consuming process. Some price rise, therefore, was a method of facilitating and shortening the adjustment period and could be viewed without alarm.

We attained this leveling off in monetary expansion by using large accumulated balances of the Treasury combined with some surplus from the Federal budget to retire Government securities. The retirement program, as you know, was directed particularly at Government obligations held by commercial banks and by the Federal Reserve Banks. Retirement of obligations held by commercial banks reduced deposits directly, because Treasury deposits were exchanged for maturing bank-held Government securities. Retirement of obligations held by Reserve Banks reduced the volume of both bank deposits and bank reserves. In this case, funds were shifted from commercial banks to Federal Reserve Banks and the retirement of Government securities held by Reserve Banks cancelled a corresponding volume of member bank reserve balances. It is true that commercial banks were still free to restore reserve positions by selling other Government securities in the open market at rates kept stable by Federal Reserve System policy, and this the banks did in limited degree. But in general the pressure exerted was enough to keep further bank credit and monetary expansion under restraint.

Unfortunately, the control of postwar monetary expansion can no longer be affirmed. The total money supply is currently increasing at approximately 9 billion dollars a year. This increase in the money supply is directly inflationary and is seriously accelerating the upward spiral in prices.

The renewed expansion in the money supply is based in part on increased holdings of gold, largely received by this country in payment for exports needed by other nations. So far this year, the country's gold stock has increased by 1.8 billion dollars and imports of gold are still adding to this stock. This new gold has provided the banks with the reserves necessary to support additional deposit expansion notwithstanding the fact that the Federal Reserve has brought some pressure on reserves by selling some of its holdings of Government securities. De-

posit expansion has gone on because of heavy private demands for credit from business, property owners, consumers, and State and local governments. During the first nine months of the year, bank loans increased by almost 5 billion dollars, or by almost as much as they increased during the whole of last year. The increase is still going on and, with the momentum being gathered, credit expansion can continue without check for some little time.

Therefore, our inflationary spiral problem is now not only a matter of the wartime accumulation of money and other liquid assets, but also a problem of renewed monetary expansion. Since we cannot rapidly reduce the excessive money supply that is based so largely on public debt, the least we can do is to endeavor to restrain further monetary expansion based on private debt creation.

There is unfortunately a fundamental change in the financial situation which handicaps such restraint. This fundamental change is the ability of the banking system to continue credit expansion that the Federal Reserve System is not in a position to offset because of its responsibility for maintaining orderly and stable prices of Government securities.

The Board of Governors has given considerable thought and study to the problem presented by this fundamental change in the banking picture and has suggested several methods by which the Government securities market might be protected and traditional credit controls reestablished. These methods, which are discussed in the Board's Annual Reports to Congress for 1945 and 1946, are to empower the Federal Reserve to increase member bank reserve requirements (with the exception of raising reserve requirements from 20 to 26 percent for banks in central reserve cities, the Board of Governors has already applied the present statutory maximum reserve requirements to member banks), to introduce by statute a secondary reserve requirement against demand deposits, or, lastly, to authorize the System to limit commercial bank holdings of long-term Government securities. Chairman Eccles, in a recent speech before the National Association of Supervisors of State Banks, has underscored the importance of our changed banking problem and the urgency of finding an effective way of meeting it.

In the absence of authority to deal with the changed banking situation through one or more of these methods, there has recently been some increase in short-term rates of Government securities. But the rise in bill and certificate rates has not as yet exerted an effective retarding influence on credit expansion. As you are aware, the sheer size of the 260 billion dollar public debt, the problems of refinancing large monthly maturities, and the role of interest cost in the Federal budget are among the main reasons why short-term interest rates have not been allowed to rise more sharply. Secretary of the Treasury Snyder will announce soon action on the November 1st refunding.

The responsibility falling on the banks

Although the Federal Reserve System is handicapped by its present responsibilities, on the one hand, and by the limited scope of its authority in dealing with the present type of inflationary banking situation, on the other hand, the System will do all it can, directly and indirectly, to restrain further credit expansion. Nevertheless, a heavy responsibility devolves upon individual banks to submit to self-restraint. Under present conditions, banks are incurring large risks in private credit expansion and they should be constantly aware of these risks. Banks that conserve their credit resources and stubbornly maintain a

high degree of liquidity will have less to regret and fewer losses to write off than institutions that ride the crest of the inflationary tide. This is particularly true for banks specializing in real estate and consumer credit, but it is also true for banks engaging in extensive business and agricultural lending.

A greater alertness on the part of bankers regarding the composite inflationary effects of their individual credit advances can do much to restrain the rate of current bank credit and monetary expansion. It can also do much to reduce the undesirable effects upon banks when inflation comes to an end and is followed, as it inevitably will be, by deflation. To be sure, the business of banks is to make loans and investments which accommodate industry, commerce, and agriculture, and when they discontinue this activity they cease to be true banking institutions. I am not urging banks to deny themselves their proper sphere of activity. They can reasonably be asked, however, to recognize a common responsibility in times such as these and in their self-interest to take double precautions to make loans and investments that are in every respect sound—not only sound in individual cases, but sound as related to the present inflationary economic picture.

Debt management policy

If the present spiral of rising prices is to be broken before serious damage to the economy is done, every avenue of public financial policy must be examined for whatever contribution it can make to meeting this key problem. Debt management policy is one of these avenues. Debt retirement operations in the present situation should be as anti-inflationary as possible. This means, of course, that any retirement program made possible by the current budget surplus should focus on the retirement of Government securities held by the commercial banks and the Federal Reserve Banks.

As I have said before, retirement of issues held by the Reserve Banks is more restrictive and, therefore, more anti-inflationary than retirement of issues held by commercial banks. (The Federal Reserve now holds 22 billion dollars of Government securities.) This process necessitates the adjustment of reserve positions by many banks. However, any retirement of Government securities held by banks is helpful and in the direction of restraining further credit expansion.

Another important phase of debt management policy would be to increase the sale of long-term bonds to investors and to use the proceeds to retire part of the debt held by banks. Important banking and other groups have strongly urged such a program and recently the Treasury has taken an important step to implement the suggested policy. I refer, of course, to the new Series A nonmarketable investment bonds. Further experience along these lines is desirable.

Maintenance of as high a level of sales of savings bonds as possible will also need to be an essential aspect of an effective debt program designed to help check the inflationary spiral. The vast majority of American families strongly believe that regular saving is important, and more than half of all families think that saving is even more important now than it was during the war. This is one of the significant findings of the Board's recent surveys of consumer finances. It lends substance to the belief that a continuing flow of funds will be available to the Treasury from sales of savings bonds in excess of redemptions, even though personal savings are lower in volume than in war years. The amounts in any one year will probably not be large, but they will help to transfer securities from banks to nonbank investors in accordance with desirable debt management policy. Again, consideration must be

given to the use of these funds to retire bank-held obligations in the way that will be most anti-inflationary.

It is clear that debt management policy can serve constructively to check the present price spiral by helping to restrict further monetary expansion. It is clear too that the inflationary situation is serious enough to warrant as much use of such policy as is feasible. The actual working out of policy appropriate to current conditions, is, of course, a highly technical matter. The subject is under continuing study by the Board, the System's Open Market Committee, and the Treasury, and the effective liaison that exists between the authorities assures that every suggestion or alternative will receive careful study and consideration.

Conclusions on domestic inflation and monetary policies

Economic stability at high levels of employment and output is seriously threatened by the current inflationary spiral. One of the main causes of this inflationary condition is the excessive money supply created by war finance. Expansion in the money supply under the pressure of forces that are largely domestic, but to some extent international, in origin is being resumed. Meanwhile, the demand for available supplies of goods and services is driving prices higher. If the inflationary spiral is to be broken, it is imperative that the world supply of goods and services be expanded as rapidly as possible. Today the greatest available supply of unused resources is in Europe and it should be developed without delay.

Fiscal, debt management, and monetary policies must also be brought to bear on the inflationary spiral.

At least, it is urgent to restrain further expansion in the money supply. Maintenance of a large budgetary surplus is essential for this purpose. This can be accomplished, however, only by holding taxes up and governmental expenditures down so far as is possible under existing conditions.

Monetary policies should be directed to keeping in check further bank credit and deposit expansion. Not much can be done through Federal Reserve policies, however, in the existing situation. Therefore, individual banks have to assume a greater responsibility for credit expansion, to recognize more fully the composite effects of their actions, and to take account more directly of the abnormally high risks that are involved in current credit extensions.

Public debt management policy should be as anti-inflationary as circumstances permit. Emphasis on retirement of bank-held Government securities is essential and every feasible measure for transferring Government securities out of the banks into the hands of nonbank investors should be applied.

The task of breaking the present inflationary spiral through fiscal, debt management, and monetary policies may not prove insuperable. If successful, however, the attack will require the full cooperation with Government of all banks, financial institutions, and businesses. And if it is not successful, our private banking system may once more be the scapegoat in the eyes of the public. First, it may be held responsible for having caused inflation. And second, it may be accused of having caused the collapse and deflation which, if history is any guide to future events, will at some stage inevitably come unless prudent realistic measures are applied in all quarters without delay.

Fed Reserve

March 23, 1948

Dear Mr. Young:

I just returned from a few weeks' absence and I find the chart that you were good enough to prepare for me at my request has not yet been acknowledged.

Please accept my thanks.

Sincerely yours,

Eugene Meyer

Mr. Ralph A. Young,
Board of Governors of the
Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

Fed Res

May 24, 1948

Dear Elliott:

Thank you for your letter with
enclosures. It is very helpful.

With best wishes, I remain,

Sincerely yours,

Eugene Meyer

(2)
Mr. Elliott Thurstan,
Board of Governors,
Federal Reserve System,
Washington 25, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

JAN 4 1948

January 3, 1949.

Dear Mr. Meyer:

I appreciated very much the thoughtfulness of your note of December 24 in regard to my father. He was nearing his 93rd birthday and passed away peacefully in his sleep.

I should like to say that your staff was very helpful to me in connection with the reporting of his death.

Very sincerely yours,

Chester Morrill

Chester Morrill.

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D. C.

Fed Reserve

I. B. A.

N. S. D. A.

A. B. A.

Life Insurance Association of America

F. R. B.

Comptroller of Currency

Treasury ??

S. E. C.

January 13, 1949

Mr. Riefler

Bank Profits Compared with

Miss Stockwell and Mr. Kolb

Profits of Other Lines of Business

The attached table shows that since 1945 there has been a significant shift in the rate of return earned by banks relative to that earned by other lines of business. In 1945 the rate of bank profits (that is, the ratio of net profits after taxes to net worth) was much higher than that of non-financial corporations. Banks, however, have not shared in the sharp increase in profits which has occurred since 1945 in the case of most non-financial groups. As a result the 1948 bank profit ratio was considerably below those of most other lines of business. This was true both for all banks as compared with all non-financial corporations and for large banks as compared with large corporations in other lines of business.

The 1945-47 decline in bank profit ratios reflected large decreases in profits on securities sold. The 1947-48 decline reflected primarily large transfers from earnings to build up reserves for future losses on loans. Without such transfers the ratio probably would have increased. However, the 1948 bank profit ratio would still have been considerably smaller than the ratios shown in the table for most other business groups.

The large transfers to valuation reserve accounts in 1948 resulted from a special ruling of the Bureau of Internal Revenue in December 1947, whereby banks are permitted to build up reserves for bad debt losses on loans out of earnings. The net current earnings (current earnings less current expenses) to net worth ratios, both before and after income taxes, which take no account of security profits and losses, recoveries and losses on loans, and transfers to valuation reserves, were lower in 1947 than in 1946 (the peak year) but they are expected to increase in 1948 to at least the 1946 levels. For all insured commercial banks the net current earnings to net worth ratios were:

	<u>Before income taxes</u>	<u>After income taxes</u>
1948 (est)	12.0	9.4
1947	11.5	8.4
1946	11.9	8.6
1945	11.3	7.9
1944	11.1	8.5

EJS/RCK:fc
Attachment

Bank Profits Compared with Profits of Other Lines of Business

(Percentage ratio of annual net profits to net worth ^{1/})

Line of Business	1940	1941	1945	1946	1947	1948 (Estimated)
A. All companies						
Banking - All insured con'l. bks.	6.0	6.7	10.7	9.7	8.1	6.8 ^{2/}
Non-financial corps., total	6.1	8.6	6.1	9.1	12.4	13.4
Manufacturing	8.6	11.7	6.5	9.5	15.2	16.2
Trade	6.6	9.8	9.7	17.0	15.0	14.8
Transp. & pub. util.	3.3	4.3	4.1	4.1	4.8	5.4
Other	2.2	4.8	6.0	10.4	14.6	15.5
B. Large companies						
Banking - Large insured con'l. bks.	3/	6.6	10.7	9.3	7.2	6.5 ^{2/}
Non-financial corps., total	7.4	8.9	7.6	9.6	12.4	14.5
Manufacturing	9.8	11.4	9.1	11.6	16.0	18.4
Trade	10.5	11.1	10.4	20.1	17.5	17.7
Transp. & pub. util.	4.1	5.5	5.0	4.9	5.4	6.4
Other	6.2	7.7	9.0	13.0	14.8	18.9

^{1/} Net worth is defined as the sum of common and preferred stock, capital and earned surplus, and surplus reserves, which is the same as total capital accounts, the term usually used for banks.

^{2/} The decline in bank profits ratios from 1947 to 1948 was due to the recently authorized deductions to build up reserves for bad debt losses on loans (see accompanying text).

^{3/} Not available.

Sources of data:

- (a) Banking - 1940-47, Annual Reports of the Federal Deposit Insurance Corporation; 1948 estimates, Division of Bank Operations, Board of Governors.
- (b) Non-financial corporations - 1940, 1944 and 1945, Statistics of Income, Treasury Department; 1946, 1947 and 1948, estimated from related Department of Commerce series.
- (c) Large non-financial corporations - estimated from National City Bank of New York data.

January 13, 1949

Mr. Hiefler

Mr. Koch

The attached memorandum on bank profits relative to profits of other businesses was prepared by Miss Stockwell of my Section and Mr. Kolb of the Division of Bank Operations in response to your recent request of Mr. Herbett and Mr. Young.

Attachment

Fed Res.

January 27, 1949

Dear Mr. Thurston:

As one of the public whose friendly public relations you are so expert at preserving, I suggest that the Board of Governors of the Federal Reserve System, Washington 25, D. C., might give me a life subscription to the Bulletin without making me write letters about it once in a while and signing documents as to the correctness of my address, which they can easily ascertain. The postal zone is nine; that is correct.

I would like you to issue orders, in view of my association with the System which may be a pleasant or unpleasant recollection, depending on who does the thinking in the Board, that all former "Governors of the Federal Reserve Board" (and I differentiate this from the Board of Governors of the Federal Reserve System because they are different, the Governorship having been somewhat diluted a while back) be given a life subscription, and no questions asked.

The present people in power should pass a resolution on this point, if necessary, to back you up.

If there is any objection to this at all, let me know and I will be glad to take it up with the full Board at a meeting, all proceedings to be in public and the press to be invited to the conference.

Sincerely yours,

Eugene Meyer

Mr. Elliott Thurston,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

JAN 29 1949

January 28, 1949.

Dear Constant Reader:

On behalf of the Editorial Committee of the Federal Reserve Bulletin — plus Chester Morrill who reads everything (thank goodness) — plus "Governor" (sic) Evans, who is supposed to read everything in his capacity as the Board member having the same approximate relationship to the Bulletin that you have to the Post, I am happy to advise you that the wish expressed in your deft and typical letter of January 27 has been granted, in full, and that henceforth — we trust for decades to come — you will be relieved of the heavy burden of affixing your justly celebrated and almost legible signature to our polite, routine inquiries designed to ascertain whether our readers still care and are still at large.

As a former Governor — in its original, unsullied sense — you belong to a group almost as exclusive as Mr. H. Hoover's Union of Ex-Presidents. Hence, in granting you this unique, special favor, we are not obliged to demoralize our check-up system or to violate any principle which we are prepared to die for or rise above.

Let me add the hope that you will come, soon again, to luncheon.

Faithfully,

Elliott Thurston

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D. C.

Fed Res

February 12, 1949

Dear Mr. Szymczak:

As Mr. Meyer is in Key West and is not expected to return to Washington until the latter part of this month, I am acknowledging the book, "The Federal Reserve System--Its Purposes and Functions", which you so kindly sent to him.

This will be brought to Mr. Meyer's attention on his return to the office.

Very truly yours,

Charles F. Paradise
Secretary to Eugene Meyer

Honorable M. S. Szymczak,
Board of Governors,
Federal Reserve System,
Washington 25, D. C.

February 23, 1949

My dear Mr. Szymczak:

It was very good of you to send me a copy of "The Federal Reserve System-- Its Purposes and Functions", which I received on my return from a vacation of three weeks in Key West.

I am very happy to have this revised edition.

With all good wishes, I remain,

Sincerely yours,

Eugene Meyer

Honorable M. S. Szymczak,
Board of Governors,
Federal Reserve System,
Washington 25, D. C.

Fed Res

July 5, 1949

Dear Mr. Coleman:

At Mr. Meyer's request, I am sending you here-
with 200 reprints of the editorial entitled "Spur to
Cōnfidence", which appeared in The Washington Post on
July 1, 1949, and 200 Washington Post envelopes.

I am sending 300 reprints to Mr. Thurston.

Sincerely yours,

Charles F. Paradise
Secretary to Eugene Meyer

Mr. Philip E. Coleman,
Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

Encl.

Fed Res

July 5, 1949

Dear Mr. Thurston:

At Mr. Meyer's request, I am sending you here-
with 300 reprints of the editorial entitled "Spur to
Confidence", which appeared in The Washington Post on
July 1, 1949.

I am sending 200 reprints to Mr. Coleman.

Sincerely yours,

Charles F. Paradise
Secretary to Eugene Meyer

Mr. Elliott Thurston,
Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

Encl.

Fed Res

July 5, 1949

PERSONAL

Dear Elliott:

I thought you might be interested in the enclosed. Please return at your convenience.

Today's article in the Herald Tribune repeats the misunderstanding about Eccles' attitude, concerning which you straightened me out. I think there ought to be a statement from him on the subject.

Sincerely yours,

Mr. Elliott Thurston,
Assistant to the Chairman,
Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

Encl. [Letter and enclosure from Mr. Cooper of TIME re
"Spur to Confidence"]

The Washington Post

WASHINGTON 4. D. C.

July 22, 1949

Dear Mr. McCabe:

I received your letter and the enclosure. It touches all the high spots of the subject, but I have a few opinions which I make free to express.

On page 2 you estimate new common stock issues as about 10% of new corporate security issues. I have seen a figure in Business Week or some similar publication of less than 5%. I do not have the means of checking this.

As you mention, a main reason for the lack of equity capital is that equity capital used to come from large-income individuals out of their earnings, leaving them, after taxes and living expenses, capital to invest. Such is practically not the case nowadays. Tax exempt issues pay a much higher income net in twenty-year 1-1/2% to 2% good investments than do most dividend paying common stock investments for the upper income brackets. I firmly believe that lower upper bracket tax rates would produce more income as well as more equity capital.

On the subject of more rapid depreciation of plant and equipment, the problem is difficult when approached from a theoretical point of view. I have heard many good accountants discuss this subject and their opinions run from extremes of no change at all in the present depreciation on original cost to a depreciation on the basis of what the company management wants to make it. I think you have to get away from the theoretical approach and try to be practical and compromise on the basis of something in between the two extremes. Generally, I am against compromise but the present replacement cost is so very much higher than the depreciation on the original cost of plants that it seems to me to justify a compromise.

There is no precedent for the present situation in replacement cost of obsolescence. I believe that a modification on this front would be helpful, particularly to new business enterprise.

I do not agree with you on inviting fiduciary institutions into the common stock ownership. It would be limited in the beginning and, if it worked, the pressure

would be to raise the limit. Nothing could be worse than to have a few life insurance presidents run the industry of a country.

Risk enterprise does not fit in with trusteeship responsibilities. A company owned by life insurance institutions, even with a 5% limit in any one company, if availed of by a number of such companies, would be a business run for the widows and orphans. Widows and orphans do not belong in risk enterprise.

I have heard that the Mutual Life Insurance Company of New York found itself with goods bought as sound investment which became risk enterprises because the railroads defaulted. My understanding is that they sold them out at the bottom, in the early part of the war.

The possibility of a concentration of industrial control in life insurance companies is a real threat. The German banks used to be large owners of German industry, as well as finance it. The banking approach was not in the public interest and worked out badly.

I once advised the Chairman of a Finance Committee of Northwestern University, which had large investment funds, to buy common stocks in 1939. I recommended that they only budget as expendable the same income that they would have been able to get out of first class bonds, say, 3-1/2% at the time, and to put the balance into reserves to be used if dividend income was reduced. I suggested that they work it out for 5, 10, 15 and 20 years back, to see how it would work. It was done and my understanding is that the plan was adopted and spread into a good many other institutions of learning.

You mention the American Research & Development Corporation of Boston as a type. Of course, their operations are interesting. Professor Doriot is an old and very good friend of mine not only from the war days but long before that. They have extraordinary resources in their affiliations with Massachusetts Institute of Technology and a strong Board, among them Senator Flanders and Karl Compton and others. Not many new business enterprise organizations can possibly duplicate the technical research facilities and Professor Doriot.

I doubt therefore if the mention of this institution means much.

This is a hasty and not important contribution to

your confidential preliminary draft. I have shown it to Miss Anna Youngman, our financial and economic editor. She was formerly in the Research Division of the Federal Reserve Board and is known to your people. Miss Youngman agrees with my views on the points which I mention in this letter.

With best wishes and high regard, I remain,

Sincerely yours,

Eugene Meyer

Honorable Thomas B. McCabe, Chairman,
Federal Reserve System,
Washington 25, D. C.

COPY

Fed Res

September 1, 1949.

Gentlemen:

I am interested in the suggestions that life insurance companies be authorized to purchase preferred and common shares under certain restrictions in States where it is not now permitted by law. Would you let me have a list of the States where it is now so permitted? I assume that in the other States it is not now permitted.

Have you any compilation of what restrictions are placed upon such States which do permit it, either as to whether the total amount of the life insurance funds of any company is limited or the amount of funds authorized in relation to either the resources of the life insurance companies or the amount of money to be invested in any one issue of shares in any one company?

Thanking you in advance, I remain

Very truly yours,

Eugene Meyer

Life Insurance Association of America,
165 Broadway,
New York, N. Y.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

SEP 30 1949

OFFICE OF THE CHAIRMAN

September 29, 1949.

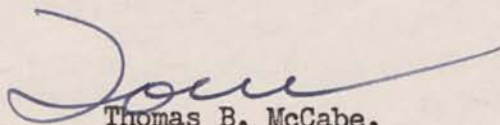
Dear Gene:

I have been reading with great satisfaction the editorials in the Washington Post on the Executive Salary Bill and particularly the references to the Board of Governors. You are a bulwark of strength on which the System has leaned heavily ever since you were Governor.

I wish you would come over to see us oftener as I always like to talk with you.

With warmest regards,

Sincerely,


Thomas B. McCabe.

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D. C.

Fed Res

November 9, 1949

Dear Tom:

The figures for the reprints of editorials during the First Session of the 81st Congress are as follows:

Washington Post	208
New York Times	165
Washington Star	98
N. Y. Herald Tribune	67
Washington News	52
wash. Times-Herald	43

Sincerely yours,

Eugene Meyer

Honorable Thomas B. McCabe, Chairman,
Federal Reserve System,
Washington, D. C.

m. Meyer

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

December 1, 1949.

Dear Senator Douglas:

In connection with my testimony presented on November 22 before your Committee, I indicated that I had not attempted to include in my statement some important matters which may be helpful to the Committee. You granted me the privilege of filing a supplementary statement should that appear desirable.

In the course of my testimony you asked if it would serve a useful purpose if Congress were to instruct the Treasury further as to the policies to be followed in debt management where they are dependent upon the monetary policies of the Federal Reserve System. You also stated that you would appreciate it if you could get some suggested standards of an instruction that might be given to the Treasury by Congress with reference to Treasury relations with the Federal Reserve.

Since presenting my testimony I have given a great deal of thought to this subject. In reading over the record of my remarks, it was apparent to me that I had not responded as fully as I could have to some of your questions. Therefore, I should like to take advantage of the privilege of making a supplementary statement.

A very fundamental dilemma confronts the Federal Reserve System in the discharge of the responsibilities placed on it by Congress. The System has by statute the task of influencing the supply, availability, and cost of money and credit. In peacetime, the objective is to do this in such a way that monetary and credit policy will make the maximum possible contribution to sustained progress toward goals of high employment and rising standards of living. Federal Reserve System powers for carrying out this responsibility are at present basically adequate. But the System has not, in fact, been free to use its powers under circumstances when a restrictive monetary policy was highly essential in the public interest. It has been precluded from doing so in the earlier postwar period in part because of the large volume of Government securities held by banks, insurance companies and others who did not view them as permanent investments. Reasons for supporting the market under these conditions I have already presented before your Committee.

This policy of rigid support of Government securities should not be continued indefinitely. The circumstances that made it necessary are no longer compelling. But the Federal Reserve would not be able to change these policies as long as it felt bound to support debt-management decisions made by the Treasury, unless these were in conformity with the same objectives that guide the Federal Reserve. The Treasury, however, is not

Treasury before decisions are reached. The System, however, has made suggestions on its own initiative to the Treasury in connection with each financing, but very often these have not been accepted. Decisions are apparently made by the Treasury largely on the basis of its general desire to get money as cheaply as possible.

In a war period or a depression, there is reason for financing a deficit through commercial bank credit -- that is, by creating new money. The Federal Reserve System has supported such financing at very low rates by purchasing government securities in the market at such rates, thus pumping the needed reserves into the banking system. In the early postwar period some support was desirable, especially for the 2-1/2 per cent long-term bonds, but it should not have been as inflexible as it was for short-term rates.

The outlook at the present time is for an expanding economic activity with high employment. We also now anticipate a government cash deficit of over 6 billion dollars in the calendar year 1950. It would be inexcusable to finance this deficit at very low rates of interest by creating new money should inflationary pressures resurge. But if the Treasury, under these conditions, insists on continuation of the present very low rates, the Federal Reserve will have to pump new money out into the economy even though it may be in the interest of economic stability to take the opposite action. In making a cheap money market for the Treasury, we cannot avoid making it for everybody. All monetary and credit restraints are gone under such conditions; the Federal Reserve becomes simply an engine of inflation.

With respect to the problem of how future monetary and credit policies are to be established, it seems to me Congress must choose from the following three general alternatives if the present dilemma confronting the Federal Reserve System is to be resolved:

(1) Congress can permit the present arrangement to continue. The Treasury would control in effect the open market and other credit policy as it does now by establishing such rates and terms on its securities as it pleases, with the requirement that the Federal Reserve support them. It should be recognized that under this course, limitations over the volume of bank credit available both to private and public borrowers, and accordingly limitation over the total volume of money in the country, would be largely given up. Such credit and monetary restraint as might be required from time to time to promote economic stability would be entirely dependent upon the willingness of the Treasury to finance at higher interest rates, and in the past the Treasury has been resistant to doing this. If this alternative is followed, which is the present arrangement, Congress should recognize that the responsibilities for monetary and credit policies are with the Treasury and not with the Federal Reserve System and that the principal purpose of the

tion and for that purpose one of three alternative actions might be taken by Congress:

(1) Recognize in the statute that responsibility for monetary and credit policy is with the Treasury and recognize the Federal Reserve for what it is today -- an agent for advising the Treasury and carrying out monetary and credit policy determined by the Treasury;

(2) Give the Federal Reserve System such additional authority over bank reserve requirements as would adequately serve as a partial substitute for discount and open market powers;

(3) Give the System a mandate to determine monetary and credit policies on the basis of guide posts stated in terms of the language of the Full Employment Act of 1946, with the Treasury required to advise and consult with the Federal Reserve and take into account the mandate of Congress in connection with its debt-management decisions.

I recognize that monetary or credit policy by itself cannot assure economic stability. It should be accompanied by a fiscal policy, as well as a bank supervisory policy, in harmony with it.

I appreciate very much having the opportunity to express my views on this matter.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles.

Honorable Paul H. Douglas,
United States Senate,
Washington, D. C.

January 10, 1950

My dear Tom:

Thank you for your invitation for
the evening of the 16th.

I shall be glad to be with you and to
meet your friends and associates. Probably,
there may be one or two of them whom I used
to know in the olden days.

With cordial regards, I remain,

Sincerely yours,

Honorable Thomas B. McCabe,
Board of Governors of the
Federal Reserve System,
Washington, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

JAN 10 1950

OFFICE OF THE CHAIRMAN

January 10, 1950

Mr. Eugene Meyer,
Chairman of the Board,
The Washington Post,
Washington, D. C.

Dear Gene:

On Monday and Tuesday, January 16 and 17, we are having a Conference of the Chairmen of the twelve Federal Reserve Banks and the Board of Governors with the Directors of the Federal Reserve Banks of New York and Minneapolis and their Buffalo and Helena branches.

On Monday evening, the sixteenth, the Board is giving a dinner for the visitors and we want very much to have you join us at dinner. We want to make it a very special occasion in Federal Reserve history and we feel that you, as a former Governor of the Board, would enjoy being there and know that your being there would add greatly to the success of the occasion.

The dinner is to be in the Carlton Room of the Carlton Hotel at 7:00 p.m. and dress will be black tie.

I hope most sincerely that you will let me know within the next few days that you will be with us at that time.

With warmest regards,

Sincerely,

A handwritten signature in cursive script, appearing to read "Tom", written in dark ink.

Thomas B. McCabe,
Chairman.

Remmies

1713 E
Youngman
J. Livingston

Em. P. G.
Friendly

MAY 26 1950



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

May 25, 1950.

Dear Gene:

On May 31, at 11:00 a.m., the Board's economic staff will review the current economic situation in the United States for the Directors of the International Bank. The staff presentation will involve a combination of visual and auditory media which I believe you will find especially interesting. Furthermore, I know the staff would be particularly appreciative of the benefit of your reaction to what they have prepared. We would like very much to have you present as our special guest.

Following the presentation, the Board is entertaining the Directors of the International Bank at luncheon, and we would, of course, hope that you could also be present for that.

With warmest regards,

Sincerely,

regretted

Tom

Thomas B. McCabe.

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D. C.

*He will put on
a show for
us - with
luncheon -
where we want it*

CONFIDENTIAL

May 27, 1950

MEMORANDUM

I received an invitation from Mr. McCabe to see the Board's economic staff review the current economic situation in the United States for the World Bank.

I am unable to go on the day on which this takes place as I have to be in New York. But I made bold to ask to have the review presented to those interested in these matters on The Washington Post. Mr. McCabe readily agreed to entertain this suggestion.

I called up Mr. Riefler to inform him that it would be convenient if we could have the show at 12 o'clock on Wednesday, June 7, with luncheon to follow. The review and lunch will be at the Federal Reserve Board.

The list of those invited with the approval of Mr. Riefler, in which you are included, is:

Philip L. Graham
Herbert B. Elliston
Miss Anna Youngman
Alfred Friendly
Dr. & Mrs. Rennie
Joseph Livingston

Will you kindly set aside this time if you are interested and advise me if you are able to come.

Eugene Meyer

June 1, 1950

MEMORANDUM

The group which is to be present at the economic staff review on June 7 is to report at 12 o'clock noon at the office of Mr. McCabe, Chairman of the Federal Reserve Board, Federal Reserve Building.

E. M.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

August 4, 1950.

AUG 5 Recd

Dear Gene:

A few days ago our staff was requested to furnish the Joint Committee on the Economic Report of Congress with some of its views on fiscal, monetary, and credit problems, and since you are so vitally interested in these subjects I am enclosing a copy for your personal and confidential information. The Committee was in such a hurry for our views that the report had to be prepared quickly. Therefore, some of the subjects are not covered as thoroughly as we would like.

Since we will be called upon from time to time to amplify our views, I would appreciate your reaction to the memorandum and any suggestions which you may have on any of these subjects.

With warmest regards,

Sincerely,

A handwritten signature in cursive script, appearing to read "Tom", written in dark ink.

Thomas B. McCabe.

Mr. Eugene Meyer,
Washington Post,
Washington 4, D. C.

Enclosure

August 23, 1950

Dear Tom:

I have been cogitating on what I should say to you in connection with your letter of August 4 inviting the expression of my reaction to the memorandum you were good enough to send me.

I can agree with a great deal of the memorandum. There are some parts of it which I would not consider myself by thorough knowledge in a position to weigh and judge without taking your valuable time or that of some of your assistants who are no doubt fully occupied otherwise. I cannot say that I find myself opposed to many points of the memorandum; only that I have no crystallized opinion on certain questions discussed.

There is one thing on which I do have an opinion; I am referring to your point (3) on page 2, "Curtailed Overall Civilian Spending." This is easily said but hard to accomplish. I am referring to the trend to continuous increasing of wages--by which I mean the effective wage, not the nominal wage.

I also refer to the coddling of farmers by exorbitant profits in the cultivation of farm vote favored by uneconomic and unreasonable price support for some of the agricultural interests. As long as politics dominates this vast area of effective buying power of labor and farming, I think many of the other steps suggested in the memorandum may be impaired in their effectiveness.

Of course, it is very difficult for those in office to think that anything could be worse for the country than their failure to get reelected. I am not personal. I do not mean the President or either political party--I am just talking about this increasing partiality to large voting groups of economic and political importance who are in direct contact with Government through inflationary loan policies, price fixing of their product, and other favoritism in the form of bonus or subsidy.

Inflation might be controlled. It will take great intelligence and moral courage to stick to sound policies which would promote the national interest on this front. I lack confidence that anyone will proclaim that we all have to suffer impaired purchasing power, but I am pretty sure it cannot be done by smiting the few and pampering the many.

The civilian economy must save enough to support the military economy. The people are not being educated to the fact that armament is not a luxury but a necessity for survival as a free nation.

Cordially yours,

Eugene Meyer

Honorable Thomas B. McCabe, Chairman,
Board of Governors of the Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

The Washington Post

WASHINGTON 4. D. C.

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 Federal Reserve Building,
 Washington, D. C.

The Washington Post

WASHINGTON 4, D. C.

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Cordially yours,

Eugene Meyer

Honorable Thomas B. McCabe, Chairman,
Board of Governors of the Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

Fed Res.

August 22, 1950

Dear Mr. Young:

I received your note and the book on my return from a week-end in Mount Kisco. I have sent the book up to Mrs. Meyer who is there until we leave for Europe on the QUEEN MARY on August 30.

I am sure she will be interested to read Mrs. Young as apparently Mrs. Young was interested to read Mrs. Meyer.

With greetings from hbase to house, I remain,

Sincerely yours,

Eugene Meyer

Mr. Ralph A. Young,
Board of Governors of the
Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

cc to EM



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

September 15, 1950.

Dear Gene:

Due to my many absences from Washington during the past few weeks, I have not had an opportunity until today to acknowledge your letter of August 23 with the very constructive comments on the statement which I sent to you.

I read your letter with great interest because I have a profound respect for your judgment. The support and suggestions which I have received from good friends like you are of inestimable value in my job, and I hope you will continue to send me your suggestions.

With warmest regards,

Sincerely,

A handwritten signature in cursive script, appearing to read "Tom", written in dark ink.

Thomas B. McCabe.

Mr. Eugene Meyer,
The Washington Post,
Washington, D. C.

November 6, 1950

My dear Mr. McCabe:

I have just talked to two people whom I regard as reliable representatives of their industries. One is an official of the Reliable group, which has a very large volume here and in several other cities of furniture, jewelry and clothing on the installment plan. The other is in the construction industry.

Both of them feel the regulations on the credit side of these activities are quite effective--perhaps very effective. In reply to my questions, both felt the business was being overdone and verging on the dangerous.

They expect their business to be hurt in the effect on their volume and no doubt on their profits, but both felt (apart from the need and the purpose of curtailing labor and material from civilian to military purposes) it is in a sound direction. They think their business will be on a sounder and more stable basis in the long run.

I had my suspicions which are now confirmed by them that they felt that business was being done on the installment front and on the construction front loosely and dangerously. The construction man said that land bought for \$1,000 an acre was valued for loan purposes at \$2,000 to \$3,000 and that the builders got not only all the money they put into these projects but a profit besides.

I am sure you are getting similar reports from other sources.

Sincerely yours,

Eugene Meyer

Honorable Thomas B. McCabe, Chairman,
Board of Governors of Federal Reserve System,
Federal Reserve Building,
Washington 25, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

~~PLG~~
~~HBE~~

NOV 11 REC'D

OFFICE OF THE CHAIRMAN

November 10, 1950.

Dear Gene:

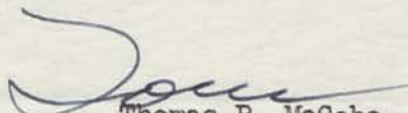
I am very appreciative of the comments in your letter of November 6 by the representative from the construction industry and by your other friend who is apparently the head of a chain of department stores. It is heartening to receive such support, as we get far more criticism than we do commendation.

Most of the letters and favorable statements which we receive are from consumers who support our program of selective credit controls. Likewise, the comments which we receive from financial men and businessmen are highly favorable. The great mass of complaints come from automobile dealers primarily and from certain segments of the retail trade.

I hope you will come over to see me soon as I always enjoy talking to you about Federal Reserve policies, and I need the benefit of your great wisdom and experience.

With warmest regards,

Sincerely,


Thomas B. McCabe.

Mr. Eugene Meyer,
The Washington Post,
Washington, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

JUN 20 1951

Dear Mr. Meyer:

The book, "Beckoning Frontiers", which I have been working on for the past year and a half, has finally been published. It gives me pleasure to present you with an autographed copy.

The book is rather long and I do not expect you to read all of it, but I do believe you may find parts of it interesting because of your interest in and past connection with the Federal Reserve System.

Cordially, *r*

A handwritten signature in cursive script, reading "Warren E. Miller". The signature is written in dark ink and is positioned to the right of the typed word "Cordially".

Hon. Eugene Meyer,
1624 Crescent Place, N. W.,
Washington, D. C.

June 22, 1951

Dear Mr. Eccles:

I arrived from California at midnight last night and found on the table at my house the book you were good enough to send me.

Of course, anything written by you, with your long experience in public banking, will be of interest not only because of my past connection with the Federal Reserve System but strictly on its merits as a matter concerning an institution which is one of our important pieces in the machinery of government and administration.

With kind regards, I remain,

Sincerely yours,

Eugene Meyer

Honorable Marriner S. Eccles,
Board of Governors of the
Federal Reserve System,
Federal Reserve Building,
Washington 25, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

December 28, 1951

DEC 29 REC'D

Dear Mr. Meyer:

It was very thoughtful of you to remember us this Christmas with a box of Florida fruit. The acid and vitamins therein are just what I have needed to finish up the Board's answer to the Patman Questionnaire. Incidentally, I think you will be pleased with the document that we are submitting.

With very best wishes for the New Year,

Yours cordially,

A handwritten signature in blue ink that reads "Ralph".

Ralph A. Young.

Mr. Eugene Meyer,
The Washington Post,
1515 - L - Street, N. W.,
Washington, D. C.