

Capital City National Bank

OF TALLAHASSEE

TALLAHASSEE, FLORIDA

May 4, 1951

GODFREY SMITH, VICE PRESIDENT

Mr. Marriner S. Eccles
Member, Board of Governors
Federal Reserve Board
Washington, D. C.

Dear Mr. Eccles:

My associates and I have read with great interest the copy of your talk at the Pacific Northwestern Conference on Banking at Washington State College, Pullman, Washington, as reported by the American Banker April 12, 1951.

We realize that many people are interested in curbing inflation and that you have taken the leadership in this movement. We agree that raising bank reserves will decrease the lending ability of banks and therefore curtail loans. However, we do not feel that increased reserves should be required only of national banks or banks that are members of the Federal Reserve System. If inflation is to be curbed through increased reserves, shouldn't state banks be included? If they are not, we think the government is defeating the purpose it is endeavoring to accomplish.

In Tallahassee there are, in addition to the one national bank, two state banks, an industrial bank, and a federal savings and loan association. The deposits of the national bank are less than one half of the combined

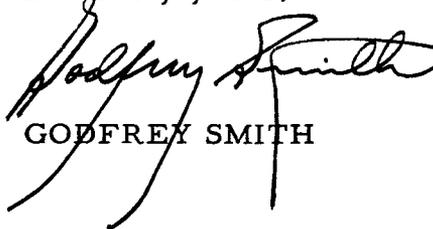
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deposits of the other four institutions. How effectively can inflation be curbed by increasing reserve requirements for the national bank only?

The old argument of preserving the dual system of banking is always used as a reason for state banks being exempted from federal regulations, but if the government's purpose is to curb inflation all banks should be included in any federal requirements that are authorized.

We shall greatly appreciate any comments you care to make on this subject.

Sincerely yours,



GODFREY SMITH

GS:mb

May 28, 1951.

Dear Mr. Smith:

I appreciate your thoughtful letter of May 4, relative to my address before the Pacific Northwest Conference on Banking as reported by the American Banker.

I can assure you that I, as well as other members of the Federal Reserve Board, fully agree with your view that any further reserve restrictions which apply to member Reserve Banks should likewise apply to State non-member banks -- otherwise, member banks would be penalized in comparison to non-member banks. Such a development would tend to weaken the Federal Reserve System by encouraging banks to give up their memberships, and such restrictive legislation would also discourage non-member banks from joining the System. The old argument of preserving the dual banking system is not a sound reason for exempting State non-member banks from regulations which may be needed to curb inflationary bank credit.

You may not have had an opportunity to read what I had to say about credit restraints before the Joint Committee on the Economic Report on January 25, 1951, and I am, therefore, enclosing a copy of that statement. On pages 3, 4 and 5 I have marked the portion in which I believe you will be interested.

I appreciate your interest in this matter.

Sincerely yours,

M. S. Eccles.

Mr. Godfrey Smith, Vice Pres.,
Capital City National Bank,
Tallahassee, Florida.