

July 13, 1937.

MEMORANDUM:

TO - The President  
FROM - Chairman Eccles

I am returning herewith Representative Patman's letter to you of July 6th and a suggested reply in accordance with your memorandum to me. I agree that this is getting to be a hot potato. It was first heated up by the Reverend Father Coughlin, whom you cooled off in the last campaign. The Patman Bill warms it up again.

This is bad legislation of the crank variety. It is based on false assumptions. One is that the millennium can be achieved by monetary manipulation. Another is that shifting ownership of the stock of the reserve banks would make the banking mechanism function more effectively in the public interest. Who owns the stock is relatively unimportant, but the powers which Congress gives the System to deal with credit and currency problems are all important.

The 6% interest paid on Federal Reserve bank stock is doubtless out of line with current rates. The rate might be reduced or it might be possible to do away with the stock altogether. However, it should be remembered that the member banks are obliged by law to subscribe to the stock in proportion to their capital and surplus. The stock is non-transferable and in this and other respects is unlike ordinary stock. Patman's statement that the Government, by purchasing the stock of the reserve banks, would come into possession of about \$300,000,000 surplus is both false and misleading. The surplus is less than half that much. Congress could at any time appropriate this to the Government and has already taken nearly \$140,000,000 of the System's surplus to put into the Federal Deposit Insurance Corporation fund. The surplus remaining is no more

than adequate for the soundness of the System, which is not now operating at a profit and might for a protracted period be obliged to draw upon its surplus. In other words, if Congress is to take away this surplus, then it must be prepared to support the System in lean years. Since its inception more than twenty years ago the System has been self-sustaining. It has not been operated for profit and such profits as have accrued, other than those which have been prudently set aside for surplus and necessary reserve, have been taxed into the Treasury.

As for expanding this Board to fifteen members, putting back officials who were removed by the Banking Act of 1935, nothing constructive would be accomplished. The present set-up of a seven-member Board is unwieldy enough without more than doubling it.

However, without getting into all the ramifications of the Patman Bill, which would fill a fair-sized volume, I should like to reemphasize the point which I have taken the liberty of making to you before, that further steps in reorganizing and perfecting the Banking System should not be taken by this shotgun method, but only after a comprehensive program has been carefully worked out with your approval.

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Attachments.

ET:b

My dear Mr. Patman:

This is to thank you for your letter of July 6th enclosing a copy of H.R. 7230 which you have introduced.

With regard to your request, it is, of course, for the Banking and Currency Committee of the House to determine whether to hold hearings on this bill. I am sure you will understand why I would not feel justified in requesting hearings inasmuch as I am not prepared to recommend fundamental banking legislation at this session of Congress.

However, I have noted with interest the points raised in your letter and I want you to know that I appreciate your courtesy in keeping me informed.