

June 24, 1938.

My dear Mr. President:

While we have all finally agreed on a modification of the Comptroller's Regulation governing bank investment and on bank examination coordination, there appears to be a difference of opinion as to the manner in which it should be announced to the country. I feel a personal responsibility to let you know my own view in this matter, not only because of the importance of the subject as a part of your program, but because I had advocated that action be taken along this line, and the Federal Reserve Board in acting to reduce reserve requirements did so, having in mind that something would be done, in accordance with my understanding with you, to liberalize restrictive investment regulations and bank examination policies so as to stop further credit contraction and make possible a flow of some of the idle excess reserves created.

Accordingly, with the Secretary's knowledge and consent, I am enclosing a suggested statement which represents my own view of the significance of this program in the light of your message to Congress and the recovery program. I feel strongly that the program will be a real help especially at this time, unless its significance is lost by putting it out merely as a move to protect bank depositors. The Secretary has been quoted in the press as saying that he agrees with the Comptroller of the Currency and with the Federal Deposit Insurance Corporation that in submitting the report to you, they have "only one thing in mind and this is the interest of the depositor".

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As far as it goes that would be all right, though it implies that the Government has not been protecting the depositor adequately and that the action being taken now is a tightening up. However, to announce this program as of no more significance than that would be to lose sight of the far more important aspects and the effect that this step would have in helping to stop the deflationary trend resulting from contraction of bank credit under the pressures of previously prevailing bank examination policies and restrictive investment regulations. Since it is essential to reverse this trend, I feel that it would be most unfortunate not to bring out the more fundamental significance of the changed procedure and to link it up with the rest of your program when it is announced to the public.

Respectfully yours,

The Honorable  
The President of the United States,  
The White House.

enclosure

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