

315 Coconut Lane
Palm Island
Miami Beach
Florida
May 15, 1938

Dear Colonel McIntyre:

Please see that the enclosed is read by the President without delay. This is an extremely important matter at the moment.

I am keenly disappointed at the partisan tone of the FRB Memo as will be those others who have consistently and vigorously supported the effort of this administration to recover control of the issue and volume of money and all its substitutes.

Very apparently the President is receiving something less than enthusiastic cooperation in some important quarters, which of course is very bad.

Cordially,

(Signed) R. H. Hemphill
Robert H. Hemphill

Marvin H. McIntyre
The White House
Washington, D.C.

rlh/RHH

315 Coconut Lane
Palm Island
Miami Beach
Florida
May 15, 1938

The President
Honorable Franklyn D. Roosevelt
The White House
Washington, D.C.

My dear Mr. President:

I have received from Professor Irving Fisher the memorandum apparently prepared for you by the Federal Reserve Board which purports to analyze the suggestion contained in my letter to you of April 7, 1938, and referred to in subsequent letters of Professor Fisher, advocating the abandonment of the doctrine of "Deferred Credits", as a means of restoring the normal velocity of deposit currency.

Ignoring for the moment some other very important misstatements in the FRB Memo, permit me to call attention to a most serious error, in this FRB Memo, in calculating the gross effect of deferred credit practice.

In the latter part of the first paragraph, it is explained that commercial banks do not give credit for any check on other banks until collected. This statement is substantially true according to my own investigation.

On page two of the memorandum, is recited the essential statistics in round numbers, which for brevity are summarized as follows:

Total of checking accounts in all banks	\$23,000,000,000
Total checks drawn daily, in excess of	2,000,000,000
Total out-of-town checks subject to deferred credit, in excess of	1,000,000,000
Total items for collection held daily	\$2,500,000,000 to 3,000,000,000

Without conceding the accuracy of the above approximations

the figures would produce constant inactive deposits of 6 to $6\frac{1}{2}$ Billions instead of the 1 Billion erroneously estimated by the writer of the FRB Memo. In other words instead of having a revolving fund of \$23,000,000,000 constantly available for payment by check, we now have 6 to $6\frac{1}{2}$ Billions less, or only $16\frac{1}{2}$ to 17 Billions.

The calculation in non-technical language, is as follows:

Of the $2\frac{1}{2}$ to 3 Billions held daily for collection (FRB Memo), $1\frac{1}{2}$ to 2 Billions are on other banks in the same city and are subject to deferment of one day.

The remainder, 1 to $1\frac{1}{2}$ Billions are checks on banks in other cities and subject to deferment for varying periods, (not stated).

The minimum deferment I have been able to find is 3 days and the maximum 17 days.

For instance—checks on Jersey City, deposited just across the river in New York banks are subject to deferred credit of 4 days.

Checks on all banks outside Florida are said to be subject to deferment of 17 days by the First National Bank of Homestead, Florida.

The arbitrary deferment of credit by Federal Reserve Banks is 3 to 9 days.

Every one of the several Bankers I have questioned upon the subject estimates the average deferment (in dollars) on checks on outside banks deposited in their institutions at 5 to 7 days. Nearly all say 6 to 7 days.

As each day of the minimum estimated period of 5 days contributes an additional 1 Billion to this inactive deferred fund (FRB Memo) it is obvious that the inactive portion of the reported total of demand deposits is constantly not less than 5 Billions due to deferment on out-of-town checks alone. When we add the 1 day defer-

ment of the 1 to 1½ Billions on checks on other banks in the same city (FRB Memo), we have a total of 6 to 6½ Billions of deposit currency which is constantly impounded in a "No-man's land of final futility". (Franklyn D. Roosevelt)

The balance of the argument presented in the FRB Memo is grossly misleading. Banks take for themselves immediate credit for all checks deposited. Thereafter these checks have the same status as cash and are carried as cash resources. In the case of many state banks they are carried as reserve—as "Cash and due from Banks and Bankers". The practice of requiring excessive inactive demand deposits to compensate for "Uncollected items" is indefensible. The commercial banks are already collecting interest on all active and inactive demand deposits and on all currency and coin in actual circulation.

The Federal Reserve Banks can give immediate credit to all member banks and the member banks can accept deposits for immediate credit without cost to anyone. This was the universal practice prior to and for some years after the establishment of the Federal Reserve system, and in fact until recently. It is the universal practice in all other Nations having Commercial and Central Banks.

Factually, this FRB Memo, supports and confirms my letter of April 7, 1938, to which you are again referred.

Very respectfully,

(Signed) R. H. Hemphill
Robert H. Hemphill

copy to
Professor Irving Fisher
rlh/RHH

THE WHITE HOUSE
WASHINGTON

May 24, 1938

MEMORANDUM FOR CHAIRMAN ECCLES:

The attached correspondence from Robert H. ~~H~~amphill is self-explanatory. I feel sure you will be hearing from him before long and wanted you to have this for your information.



M. H. McINTYRE
Secretary to the President

Enclosures

May 24, 1938

My dear Mr. Hemphill:

The President has asked me to drop you a little line of thanks for your letter to him of May fifteenth.

He appreciates your interest in letting him have your ideas, but asks me to suggest that it might be a good idea for you to take this up with Chairman Eccles, Board of Governors of the Federal Reserve System. I am, therefore, forwarding copies of this correspondence to Mr. Eccles in order that he may be familiar with the matter.

With all good wishes,

Sincerely yours,

M. H. McINTYRE
Secretary to the President

Robert H. Hemphill, Esq.
315 Cocoanut Lane,
Palm Island,
Miami Beach,
Florida.

June 2, 1958.

Dear Mac:

I am returning herewith the correspondence from Robert H. Hemphill, which you referred to me at the direction of the President.

I wish that professed friends of the President would not waste his time by trying to force on him theories that the trouble with the economy is a shortage of money or that you can solve the infinite number of difficult and complex problems of a capitalistic economy by money magic.

The problem is not now and never has been a shortage of money for the economy as a whole. In fact, we never had in all history such an enormous actual and potential volume. The problem is not to create more and more money but to put what we already have to productive use. That means putting money into the hands of people who will spend it, creating real wealth, and this has to be done either by private enterprise or by government, or by both. Merely creating more billions of deposits in the hands of those who already have more than they can or will use would accomplish nothing.

This particular correspondence of Hemphill's relates to what is known as "float", that is, checks in process of collection. His letter contains more misstatements and misleading estimates than can be dealt with in the space of a letter. For instance, he says that the Federal Reserve banks until recently gave immediate credit to member banks on items presented for collection, but that the practice has been recently abandoned. When the Federal Reserve System was established, nearly a quarter of a century ago, Federal Reserve banks temporarily gave immediate credit, but only on intra-district items and the practice was soon abandoned because the banks properly objected. The process was this: Bank A would present for collection an item drawn on Bank B, within the Federal Reserve district, and the Federal Reserve bank would immediately credit A's account and deduct from B's account, that is, B's reserves on deposit with the Federal.

The drawee banks, especially country banks, strongly objected to having their accounts with the Federal and hence their reserves reduced unless they had first seen the items in question. Hence the universal practice ever since has been to defer, but there has been a constant cutting down of the time schedules for collections so that the minimum deferment on out-of-town items is not three days, as Hemphill says, but is one day, and the maximum deferment is eight and not seventeen days, as Hemphill imagines. And on large items telegraphic exchanges cut down the deferment period to a minimum on items affecting important business transactions.

However, Hemphill's fundamental fallacy is in imagining that the giving of immediate credit by the Federal Reserve banks to member banks would have any material effect upon business volume. It would not give business more funds, but would merely add about \$600,000,000 (the average daily amount of Federal Reserve bank float) to excess reserves, which have been very large for some time past, are at present above \$2,500,000,000, and probably will reach fully \$4,000,000,000 by the end of this year. Adding the \$600,000,000 float to this already huge volume would not lead business to borrow and put money to work, when it is not using the enormous credit resources it already has on deposit or at its disposal. So much for the matter of the Federal Reserve banks giving immediate credit to member banks.

As for the giving of immediate credit by the private banks to their customers, there is nothing the Federal Reserve Board could do to force private banks, whether member or non-member, to give immediate credit for checks. The Reserve System has no such power or authority. These banks can, if they wish, give immediate credit, and as a matter of fact, usually do where the depositor has such financial standing so that the check could be charged back to him if not collected, or where the depositor's average balance is more than sufficient to offset the float. But no bank can tolerate a practice whereby a customer would habitually deposit checks on distant banks and use the money before it is collected. That would open the way to all kinds of abuse and check-kiting.

Giving the fullest possible weight to all that Hemphill says, it still would not amount to a drop in the bucket.

Under our system the way that deposits should be created is for business to come to the banks and borrow and put the money to work producing goods. When business borrows from the banks, that creates new money. Exactly the same thing happens when the government borrows from the commercial banks. Despite the fact that the existing volume of deposits is bigger than at the peak of the boom in 1929, Hemphill seems to think that more volume piled on top of the already unprecedentedly high volume would somehow bring salvation and the solution to all our ills.

I do not like to trouble you with so extended a reply, but when Hemphill makes the charge, as he does in the attached correspondence, that the Federal Reserve is not co-operating and then attempts to support that charge by any such argument as this, I cannot remain silent and complacent. If I am overlong or over-emphatic in the above in replying to you, then I rely upon your abounding good nature to forgive me.

I am returning also, with a suggested reply as you requested, the correspondence from Professor Irving Fisher, who is much more intelligent but certainly misled on this point.

Sincerely yours,

M. S. Eccles,
Chairman.

Honorable M. H. McIntyre,
Secretary to the President,
The White House.

enclosures

 FT:b