November 6, 1934.

A. P. Giannini, President,
Bank of America, N. T. & S. A.,
San Francisco, California.

Dear Mr. Giannini:

In accordance with your letter of September 24th I am returning to you herewith the correspondence you had with Colonel Leonard P. Ayres. The referred to letters have now served their purpose at this end and I wish to thank you for forwarding them on to me.

With kind regards,

Sincerely yours,

MSE:VE
Enc.

CABLE ADDRESS—BAMERICAL

13044

Bank of America

NATIONAL TRUST AND SAVINGS ASSOCIATION

LOS ANGELES MAIN OFFICE

LOS ANGELES, CALIFORNIA

September 24, 1934

Personal and Confidential

Mr. Marriner S. Eccles,
Assistant Secretary of the Treasury,
Washington, D. C.

My dear Marriner:

Am taking the liberty of sending you herewith letter received here today from Colonel Leonard P. Ayres, together with a copy of my answer to same.

May I ask you to please return same after you and Secretary Morgenthau have read them. Of course, you know, this is to be treated as strictly confidential.

Warmest personal regards!

Cordially yours,

A. P. Giannini

Chairman

(COPY)

San Francisco, California.
September 22, 1934.

Colonel Leonard P. Ayres,
Vice President,
The Cleveland Trust Company,
Cleveland, Ohio.

My dear Colonel Ayres:

From your letter I was not sure whether you were suggesting that the report of the Economic Policy Commission take an entirely different form or whether you were seeking to explain why your previous report took the form that it did.

I fully agree with you that bankers should take an active part in all banking legislation during its formative stages and should seek to direct it along lines that will be sound and helpful rather than punitive and harassing. In this connection I think that you were wise in your suggested report to point out that the failure of bank credit to expand in the hoped-for manner is not due to the unwillingness of banks to lend. The banks cannot force their funds on business men and it is quite obvious that, to date at least, business men have been unwilling to borrow. I still think, however, that you went a little further than this in your suggested report and reviewed business developments in a way which might be used by those who sought to do so in a manner to discredit the efforts of the present administration. That is why I suggested the inclusion of additional material of a more optimistic and constructive nature.

If the report is intended to forestall adverse legislation, then I think it contained material that might defeat its own ends. One of the reasons for the government's desire for a central bank, as I understand it, is the feeling that they cannot count on banks for the fullest measure of cooperation in long-term financing. The banks as a group have not been very successful in resisting legislative efforts to control and regulate them. It seems to me that if bankers are to accomplish the purpose outlined in your last letter they should seek first to show, as you have done, that the failure of credit to expand cannot be laid at their door, and, second, that if further changes are required to bring about the desired results they will be glad to cooperate to the fullest extent in revising current legislation toward that end.

A report bringing out only the two points last mentioned with a few constructive suggestions as to the broad general nature of the changes that might properly be considered would, in my opinion, accomplish your purpose of forestalling an unwarranted attack on banks and I would certainly concur in such a procedure.

Cordially yours,

(signed) A. P. Giannini
Chairman

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 3, 1934.

To : Mr. Eccles,

FROM: Mr. Gaston

I have read the attached and am returning it to you. I note that Mr. Giannini asks for the return of the heirs letter..

MSE

Agreed

October 12, 1934.

A. P. Giannini,
Chairman of the Board,
Bank of America, N. T. & S. A.,
San Francisco, California.

Dear Mr. Giannini:

I should have acknowledged before now your letter of September 15th, enclosing copy of report of the Economic Policy Commission of the American Bankers Association and copy of your letter to Leonard P. Ayres, Chairman, commenting on this report, and also your letter of September 24th, enclosing letter received from Colonel Ayres and a copy of your reply. I only recently found time to carefully read the referred to enclosures.

I doubt very much if the Secretary will find the time to go over these reports. As you know, the administrative demands upon him are so great I fear it will be physically impossible for him to give them his personal attention.

I, personally, fully approve of your criticism of the proposed report. It certainly is not in the interest of the banking fraternity, in view of the general unfavorable relationship which they have with the public, to criticize the Administration at this time. Had it not been for the Government support given to the banking system by the Roosevelt Administration, there would be no private banking system in operation today. There is no class of people or business which has received more aid from the Government than the bankers and, to my mind, they are the last ones, in their own interests, who should criticize and complain.

I hope I may have an opportunity of seeing you whenever you are in Washington.

With best personal regards,

Sincerely yours,

MSE:VE

CABLE ADDRESS—BAMERICAL

13044

Bank of America
NATIONAL TRUST AND SAVINGS ASSOCIATION

SAN FRANCISCO HEADQUARTERS

A. P. GIANNINI
CHAIRMAN OF THE BOARD OF DIRECTORS

SAN FRANCISCO, CALIFORNIA

September 15, 1934.

Mr. M. S. Eccles, Assistant Secretary
of the Treasury,
Treasury Department,
Washington, D. C.

Dear Marriner:

I am enclosing a copy of the proposed report of the Economic Policy Commission of the American Bankers Association and also a copy of my letter to Leonard P. Ayres, Chairman, commenting on this report.

While this is for your confidential information you are privileged to show it to Secretary Morganthau who I thought might be interested.

Cordially yours,

A P Giannini

Chairman.

(COPY)

SUGGESTIONS FOR REPORT OF ECONOMIC POLICY COMMISSION OF THE AMERICAN BANKERS ASSOCIATION

Washington Meeting - 1934.

The most important fact about American banking in the autumn of 1934 is that it is operating at only a small fraction of its normal capacity. The volume of transactions being currently conducted through checking accounts is now only about half as great as it was just before the depression. The same is true of the totals of bank loans presently outstanding. They are only about half as large in amount as they were in 1928 and 1929. Our banks are meeting efficiently the current operating demands of American business, but they are not being called upon to finance the expanding credit requirements of a progressive recovery.

Ample Resources

The evidence is conclusive that the facilities and the resources of commercial banking are amply adequate to care for the credit requirements of a much greater volume of business than that now being transacted. There are two simple indicators in the current figures of bank reporting which show that this is so. The first of these shows the relationship which the loans and discounts of member banks in cities bear to their demand deposits. During the 10 years before the depression these business accommodations were on the average about 11 per cent greater than the total of the demand deposits, and the variations away from that average were never large. By contrast the present volume of business accommodations, instead of running about 11 per cent above the demand deposits, is nearly 40 per cent below them.

The second indicator is the excess reserves of banks that are members of the Federal Reserve System. These excess reserves are idle assets, completely available, but not currently earning anything. They may be used to sustain credit expansions approximately 10 times as great as themselves. Before 1931 the total of such excess reserves was never as great as 100 million dollars for all the member banks combined. It has now risen to more than two thousand million dollars.

Federal Aid

It is not difficult to trace the series of developments that have restored to American banks their capacity to expand credit on a large scale. They include a considerable measure of business revival and an important advance in bond prices which enabled banks to make liquid large holdings of assets that had previously been frozen, and the institution of deposit insurance which has powerfully aided in restoring public confidence in the banking system. In addition the Reconstruction Finance Corporation has loaned about three-quarters of a billion dollars to closed banks, and subscribed another billion for the preferred stock or capital notes of active banks. Moreover additional billions of federal funds have been employed in exchanging guaranteed bonds for distressed farm and urban mortgages.

The federal government has not limited its efforts in behalf of the banks to those designed to increase the liquidity of their assets and to pile up available credit resources. It has in addition made three noteworthy attempts to stimulate borrowing from banks. It has authorized the cooperation of the commercial banks, the Federal Reserve Banks, and the Reconstruction Finance Corporation in the making of intermediate-term loans to companies needing additional working capital. It has launched a country-wide campaign to stimulate the making of loans to home owners to finance improvements and repairs of their houses. Finally it has created financial arrangements under the National Housing Act to facilitate the making of long-term loans by banks for financing the construction of new homes.

Meager Response

The results of these multiple attempts to induce an expansion of bank credit have been disappointing. The lowest point of the business depression as measured by the volume of industrial production is more than two years behind us in the summer of 1932, but the volume of commercial loans of city banks was then nearly 25 per cent greater than it is now. One of the most important lessons of the depression is that the employment of bank credit depends not only upon its availability, but also and primarily on the ability and willingness of business men to borrow.

The volume of new intermediate-term loans made so far to supply companies with working capital has been small indeed. The Reserve Banks and the Reconstruction Finance Corporation are authorized to make such loans, but they appear to have been quite as unsuccessful as the commercial banks in finding willing borrowers. The results are similar with respect to the loans for renovating homes and building new ones. Under the National Housing Act other lending agencies besides the banks are authorized to make such loans, but so far they have had most limited success in doing so.

In the attempt to attract new loans banks throughout the country have made successive reductions in the rates charged borrowing customers until now these are lower than they have ever been before since the records showing them have been kept. Business will borrow at any rate however high if it can use the credit profitably, but it will not borrow at any rate however low if it cannot make a profit by the use of the funds.

Building Loans

It is not within the province of this report to attempt an analysis of the many factors which appear to make business men in general doubtful of the possibilities of using borrowed funds profitably, but it is appropriate to discuss briefly two sets of conditions which appear to be chiefly responsible for the prevailing restricted activity of the banking business. The first of these is the existing stagnation in privately financed building construction. During the prosperity period just before the depression residential construction made up nearly half in value of all new building. In 1925 the new contracts for residential building reported from 37 states amounted about 10 million dollars per working day.

Last year they had fallen to about one million dollars a day, and so far this year they have been less, and are making a new low record for the depression.

This one factor accounts directly and indirectly for a not inconsiderable part of the shrinkage in banking activity. The cause seems to be simply that the costs of new building are too high to encourage new construction. Building costs have recently advanced almost to the peak levels of 1929. Meanwhile prevailing rents are only about two-thirds as high as they were in the prosperity period, and this disparity seems likely to prevail so long as many distressed properties continue to overhang the real estate markets in most of our cities.

It is significant that whereas 26 years ago in 1908 the average passenger automobile bought and the average one-family house built each cost about 2,000 dollars, this year each new single house is costing about six or seven times as much as the average new automobile. Meanwhile the quality of the automobiles has vastly improved, while the same cannot truly be claimed for the houses. Probably there is slight basis for anticipating any important expansion in the financing of new construction by banks so long as the costs of building are as high as they are now.

Corporate Financing

The other outstandingly important cause of shrinkage in the volume of banking activity appears to be the decline in the volume of new corporate financing. The Federal Reserve Board reports that new issues of domestic corporate securities, including bonds, notes, and stocks, ranged in amount during the prosperity period from about 300 million dollars a month in 1925 to nearly 700 million a month in 1929. In 1933 the average was about 13 millions a month, and in the first seven months of 1934 it was 17 millions a month. The decline from 1929 to 1934 is almost 98 per cent.

There can be little doubt that this great shrinkage constitutes the most seriously important development of the entire depression, not merely so far as banking is concerned, but in its relationship to our entire national economy. Banks are the instrumentalities through which the thrift of the people accumulates national savings. Mortgages and security issues are the means by which these savings take productive form as national wealth. These processes which transform thrift into productive wealth have almost ceased to operate, and this explains the prevailing lethargy of American banking.

The causes are numerous. They include the legislative destruction of most of our investment banking machinery, the rigorous restrictions in the investments permitted for bank funds, and the barriers of the Securities Act against new issues. In even more important degree they include the code regulations which have made it difficult for American business men to plan ahead with reasonable confidence in their own ability to estimate material costs, wages, and probably profit margins.

They include also prevailing and continuous doubt concerning the future value of money. In the face of so many and such serious uncertainties the managements of corporations have been unwilling to attempt the financing of business expansion through the sale of new securities.

Federal Securities

Business activity suffered its severe declines when the world-wide depression became acute. Its recovery has been slow because of the continued uncertainties about the possibility of making profits. The result has been widespread unemployment on a huge scale. In the attempt to stimulate business activity, and to relieve unemployment, the federal government has expended vast sums in excess of its receipts, and these have been raised by the sale of federal securities.

The banks have been the most important purchasers. This has been inevitable, for practically the only channel for the use of funds freely open to banks has been and is the channel of government securities. From the autumn of 1929 to that of 1934 government borrowings from member banks have increased by more than four billion dollars, while in that same period the borrowings by business from the same institutions have decreased by almost four billions.

No one can foresee what the outcomes of these developments will be. As a nation, and as a system of banking, we have created a vast pool of money and credit resources that is primarily available for use by the federal government. Unless business expansion comes quickly, and on a great scale, these resources must increase still more, and their employment by the government must be even further extended. That would mean that we should drift steadily into a type of inflation that has little similarity with the inflations of the past, and one that could hardly be controlled by checks imposed by government, for it would be progressively created by the fiscal necessities of government.

Two Conclusions

Two main conclusions follow from a consideration of the developments which have produced the present abnormal conditions in banking. The first is that American business will again become a good customer of American banking when the prospects for making business profits promise to justify the risks of borrowing. The initiative must be that of the business man. It cannot be that of the banker. The developments of this period have conclusively demonstrated that credit availability can facilitate enterprise, but cannot create it. Unless and until productive business expansion takes place on a large scale the federal government must remain the most important customer of the banks.

The second conclusion is that the policy which should guide bankers in their operations during this period should be that of fostering and assisting business expansion. The criteria for credit expansion should continue to be the time-tested standards of community service, responsibility of the borrower, and security of the loan. This is a time when good banking must perforce be courageous banking, and likewise it is a time when courageous banking must be vigilantly resolute to be good banking.

(COPY)

September 15, 1934.

Colonel Leonard P. Ayres,
Vice President,
The Celveland Trust Company,
Cleveland, Ohio.

My dear Colonel Ayres:

I have reviewed your suggested report of the Economic Policy Commission of the American Bankers Association with a great deal of interest. I agree with you that any report at this time should deal frankly with important issues confronting banking but at the same time should be non-partisan in its content. While I find myself in general agreement with almost all of your statements taken separately, I doubt that, when the report is considered as a whole, you have really achieved the latter objective.

Your report is so clearly written that it lends itself to concise summary. To clarify my subsequent comments, I am enumerating the following points which it seems to me the report seeks to establish:

(1) The banks now have available enormous resources to finance the expanding credit requirements of a progressive recovery.

(2) This situation has been brought about by a considerable measure of business revival and a large amount of government assistance.

(3) These large resources are lying in the banks unused and their value in promoting recovery is disappointing.

(4) This is very largely because building construction, due to high building costs,and corporate financing, due to restrictive legislation and the uncertainties of government control, have shrunk to insignificant levels.

(5) The purchase of federal securities furnishes the only outlet for the vast resources that have been piled up in banks but their use in this manner is unprecendented and implies a dangerous type of inflation.

(6) The bankers cannot force these funds on the American business man; the initiative must come from him, and he will not borrow until he believes there is a profit in doing so.

The accumulation of these points, in the absence of any enumeration of the constructive events which have taken place, seems to me to lead to the thesis, whether intended or not, that the administration has been engaged for two years in promoting recovery and the net result has been stagnation - a stagnation which, by implication, is only to be broken by the elimination of measures which have disturbed and frightened the American business man. I question the tenability of such a thesis and the wisdom of putting it forward as the report of the Economic Policy Commission of the American Bankers Association. Aside from patriotic considerations, I believe that it is to the best interests of bankers to look on the constructive side of economic affairs and to cooperate with the present administration to the fullest extent. To do otherwise is to foster and encourage the defeatist attitude which is now so prevalent and to force the administration to adopt even more radical means to accomplish the ends which every one agrees must be accomplished.

This report will undoubtedly be the subject of widespread newspaper comment and I believe it should enumerate briefly the ways in which business is better than it was two years ago. The last two years have shown a tremendous net gain while the previous two years showed a tremendous net loss. This fact alone is of the greatest significance. Even now I believe a marked recovery from the summer slump is taking place. I know this is particularly true on the west coast with which I am most familiar. I am personally very much encouraged about the situation here. I have just finished a tour of our branches and find conditions rapidly improving all over the state.

Your illustration of the extent to which idle banking resources have been piled up in banks is very convincing and certainly establishes your point. It seems to me, however, that there is a very constructive aspect of this situation that should be presented. I had a table prepared of net demand deposits and loans so as to bring out the month to month change in the ratio to which you refer as your first indicator. The mounting excess of demand deposits is indeed startling. However, it seems to me of great significance that this mounting excess during 1933 was due to the liquidation of loans whereas during 1934 it was due mainly to the accumulation of demand deposits. Demand deposits, although they had reached their low point and were on the increase, were still in December 1933 about one billion dollars less than in January 1933. The excess of demand deposits however was greater than ever before, due to the proportionately rapid deflation of loans. During 1934 to date exactly the reverse situation took place. Demand deposits increased about two billion dollars, whereas loans only decreased about four hundred and fifty million and, furthermore, during the last three months they have been practically stationary with a slight uptrend in recent weeks. In other words, the downward trend of loans has been tabled out and apparently reversed just as the downward trend of deposits had previously been reversed. Viewed in this light the mounting excess of demand deposits does not represent stagnation but merely an accumulation of constructive forces which have not yet had their full effect on the economic mechanism.

Much the same should be said of your second indicator, excess bank reserves. These excess reserves are of recent creation. One billion two hundred million has been accumulated in the last nine months, while the remaining seven hundred million was accumulated in the previous twenty-seven months. It is of course true that the creation of these tremendous excess reserves has not yet accomplished any significant credit expansion. However, it is unsafe for your report to imply, in view of the short time during which the bulk of these excess reserves has existed and in view of the fact that only recently has the rapid liquidation of member bank loans ceased, that the desired expansion of credit will not take place at an early date.

I am particularly concerned about your comments concerning government borrowing, because I question the wisdom, in a report which will be made public, of saying anything - even in so temperate a tone as characterizes your report - which will tend to depreciate the value of United States Government securities which constitute the major holding of banks. I have always felt that banks could invest in nothing better than United States securities and I believe that when banks express a willingness to stand or fall with the credit of the United States Government they are taking the least possible risk.

I hope I have not seemed too critical of your report and I would not want you to think that I believe that the Bankers Association should hesitate to criticize constructively specific measures which the government is taking, nor expect them to take other than an active part in legislative matters especially during the formative stages. I agree with most of your critical comments in themselves, but believe the report should contain additional material which would make it more constructive in content and optimistic in tone. Otherwise it will surely be used as material for those who like to preach defeat and destruction.

Cordially yours,

Chairman.

(COPY)

THE CLEVELAND TRUST COMPANY

CLEVELAND

September 17, 1934.

Mr. A. P. Giannini,
Chairman of the Board,
Bank of America,
San Francisco, Calif.

My dear Mr. Giannini:

Thank you very much for your long and careful letter in which you have canvassed some of the factors which must be considered in connection with any report to be submitted by the Economic Policy Commission. My own observation of current business and banking conditions and their trends leads me to less optimistic conclusions concerning them than those you have reached. I do not, however, think this is an important difference, for we know from experience that if we should get together and talk things through we should arrive at some sort of a mutually acceptable formulation of our ideas about it.

The essential problem about making a Commission report appears to me to be of a different nature. I think the question is whether or not the Commission should address itself to a consideration of the pending banking legislation which reports tell us is being formulated at Washington but which we cannot cite or quote because no texts are being made public. We do clearly know that there is widespread opinion within administration circles that the control of banking and credit should be socialized. We know also that Washington letters and newspaper correspondents are sending a steady stream of references to proposed legislation designed to effect the control of credit, and we know that almost every such article or even reference carries in explanation and support some statement about the failure of bankers to support business recovery by expanding credit.

The fact is that the government has run in the red the past five years and seems doomed to continue doing it for at least some years to come. This condition is beginning to involve a series of minor fiscal crises, such as the one now in process. That arouses questions concerning public credit which are annoying to the government and might become more serious. The President has declared that it is his policy to establish a managed currency. This would require government control of bank credit, and the fiscal problems above referred to make such control appear nearly requisite. Under these circumstances the administration naturally turns its thoughts towards the creation of a central credit authority and considers methods for controlling both the expansion and the contraction of bank credit.

A. P. Giannini September 17, 1934.

This is the situation that I have uppermost in mind. When new banking legislation of these sorts is considered, the arguments for it will be supported by the contention that the banks have failed to do their part in the recovery movement. All the ground work for making such claims is now being laid. I think the question before us is whether or not we should present material that will forestall and perhaps fend off such impending propaganda, or whether we should instead prepare a report dealing with such matters as deposit insurance, double liability, socializing of examinations, and other genuinely important questions of bank management, or whether alternatively we should attempt to bolster public confidence and reassure business sentiment by pointing out the items of progress and improvement which have become manifest during the past year. Clearly we cannot mix these programs, for they are of utterly diverse characteristics. What we must do is to reach a judgment as to the procedure that will be most helpful to American banking in the long run and in the months that lie directly ahead. I shall greatly appreciate your courtesy if you will let me know how all this appeals to you.

Sincerely yours,

(signed) Leonard P. Ayres.