

## Office Correspondence

Date May 8, 1935To Mr. Daiger

Subject: \_\_\_\_\_

From Governor Eccles

2-8495

\* \* \*

I am handing you herewith a copy of letter which I have just sent to Mr. George W. Elliott, General Secretary of the Philadelphia Chamber of Commerce. Please return it to me when it has served its purpose.

You will find some use for this letter in making up a reply to the Lumber Manufacturers Association letter which I have referred to you. I hope you will be able to prepare a reply to that Association at an early date as it is very important that it go to them at the very earliest moment. It should be possible to get the support of that Association back of the Bill as I do not know of any legislation which will be more beneficial to them.

---

May 8, 1935.

Mr. George W. Elliott  
General Secretary  
Philadelphia Chamber of Commerce  
Twelfth and Walnut Streets  
Philadelphia, Penna.

Dear Mr. Elliott:

This will acknowledge your letter of April 25 conveying to me the report of the Banking and Currency Committee of the Philadelphia Chamber of Commerce on the Banking Bill of 1935.

With many of the views expressed in the report I cannot agree. I agree that our banking system should serve industry, commerce and agriculture, if this is interpreted in broad terms. It is my view that commerce, industry, and agriculture would be best served if our banking system could be so operated as to mitigate industrial fluctuations and contribute to enduring business stability. That is the purpose of the Banking Bill and not, as your Committee states, the facilitation of Government financing. The Government has experienced no difficulty in financing its needs in the past and anticipates no difficulty in the future. As I stated in the course of the hearings on the bill before the House Committee on Banking and Currency, the Federal deficit has no relation to this bill, and I would advocate its passage if the Federal budget were balanced.

Since I am sure that you will agree that we should do everything in our power to lessen the violence of booms and depressions and seek to promote stability, I feel that our real difference lies in the choice of means rather than ends.

Your Committee apparently did not investigate very closely the present administrative setup with regard to open-market operations. I am sure that, as business men and as administrators, its members would have been impressed with its fundamental unsoundness from an administrative point of view and would have offered some constructive suggestion for its improvement. At the present time authority and responsibility for open-market operations is shared by fourteen bodies comprising 128 men. Some are appointed by the President, some are elected by the banks, some are appointed by the Federal Reserve Board, and some are appointed by the Boards of Directors of the Reserve banks. With such an organization it is almost impossible to place definite responsibility anywhere. I am sure that the members of your committee would recognize that such a system, as applied to their individual

businesses or banks, would encourage friction and delay. If they would go so far as to agree with me on this I think they would also agree that from an administrative point of view the fixation of authority and responsibility in one small body is desirable.

The issue then becomes whether this body should be a public body appointed in the regular manner which we have developed in our form of Government, or a private body. When the issue is thus stated I think it admits of only one answer. A body whose decisions may affect the economic well-being of every person in the community must be in some manner subject to public control;

While recognizing the fact that the body which has authority and responsibility for the determination of monetary policy must be a public body, we have sought to ensure that decisions of this body will not be activated by unworthy motives or by partisan considerations. To this end we have sought to add to the prestige of the Federal Reserve Board by concentrating in it both authority and responsibility. The enhanced prestige and the new qualifications we are proposing will, it is hoped, result in the Board securing the best talent available. We have sought to increase the independence of members of the Federal Reserve Board by granting them pensions and higher salaries. Finally, I have suggested that a specific objective of policy be written into the Act, and this suggestion was accepted by the House Committee. Your Committee stated that the passage of Title II could mean arbitrary inflation or deflation. You will note, however, that we are doing everything we can to prevent that eventuality. Personally, I feel confident that if in the past, with less prestige, lower salaries, no pensions, and the absence of a specific legislative objective, there has been no evidence that the Federal Reserve Board has ever been activated by unworthy or partisan aims there is little danger that such aims will enter into policy in the future. The inclusion in the law of a definite objective looking toward stability of business and employment will in itself greatly assist the Federal Reserve Board in resisting such political pressure to use its powers for purposes inconsistent with the maintenance of business stability.

You will note that it is only in matters pertaining to national monetary policy that we are proposing to confer more authority and responsibility on the Federal Reserve Board. In matters pertaining to credit administration the Reserve banks have always played the dominant role and we propose to increase their autonomy in such matters. At present the Federal Reserve Board appoints three directors, one of whom is the chairman of the board, of the individual Reserve banks. The governors of the Reserve banks are not directors. It is proposed that the Federal Reserve Board surrender the power of appointing a chairman, that the governor be both a director and chairman, and that the Board should only reserve the power of approval of appointments once

every three years. The governors will be appointed by the local board of directors and hence will be acceptable to them. The Federal Reserve Board will have no power to force any person on a Reserve bank as governor who is unacceptable to the local board of directors. In another section of the bill it is proposed to grant the Federal Reserve Board increased powers of delegation to its representatives. This was suggested partly for the purpose of enabling the Federal Reserve Board to delegate to the Reserve banks certain duties of a regional and local nature now imposed on the Board.

Your Committee finally suggests the appointment of a commission to study carefully the necessity of changes in the Federal Reserve System. I can see no objection to the appointment of such a commission after the present bill, which deals with the more immediately urgent matters, has been enacted. A great many banking proposals have been embodied in various bills now pending in Congress, and in reports and resolutions adopted by various prominent and influential groups--such proposals for example as the One Hundred Percent Reserve plan, the Social Credit plan, the segregation of savings banking from deposit-currency banking, the establishment of regional or trade-area branch banking, and the taking over by the Federal Government of all banking functions now privately exercised. Some advantage might be derived from a leisurely study of these and other proposals to prepare the ground for legislation looking to the eventual unification of the banking system of the country with the various changes and refinements, the necessity for which would be indicated by the study as well as by current developments during the period of study. What I object to is that the proposal for such a study be used to prevent action from being taken on important measures that are essential to encourage recovery and to guard against an inflationary boom.

Having recently spent nearly three weeks testifying on the Banking Bill before the House Banking and Currency Committee, I shall not attempt to recount here the reasons I have urged for enactment of the bill at this time in the interest of present recovery and future stability of business and employment. I am sending you instead a copy of a summary of my testimony.

I am convinced that those sections of the bill that have aroused the most controversy relate to matters that cannot be resolved by further study. Our differences arise on questions of principle and cannot be cleared up by the accumulation of more factual information than we have at present. The issues are as simple and as clear-cut today as they would be after years of close study. I cannot therefore regard the suggestion of the desirability of appointing a commission as other than a device to delay the enactment of reforms which are urgently needed at the present time.

Sincerely yours,

(Signed) M. S. Eccles.

M. S. Eccles  
Governor