

Office Correspondence

FEDERAL RESERVE BOARD

MAR 22 1935
Date May 2, 1935To Governor EcclesSubject: Judge Birdzell's testimonyFrom Mr. Wyatt, General Counselre interest on deposits.**RUSH**

... 16-1852

Because Senator Glass is almost certain to question you about the same subject, I feel that I should invite your attention to the following extract from Judge Birdzell's testimony of May 1, 1935, before the subcommittee of the Senate Committee on Banking and Currency:

"Senator Glass. Well, I think that perhaps it should be done by this committee.

I am told, Judge, that you are an exceptionally able lawyer; and I should like to get your judgment upon this requirement as to the payment of interest on deposits:

The Federal Reserve Board shall from time to time limit by regulation the rate of interest which may be paid by member banks on time deposits.

And now, note this, please:

And may prescribe different rates for the payment on time and savings deposits having different maturities or subject to different conditions respecting withdrawal for repayment.

And now, note this, particularly:

Or subject to different conditions by reason of different locations.

Would you, or would you not, imagine that whoever is responsible for drafting that provision of law, had in mind that that should be done? In other words, do you think that they had in mind that there should not be a uniform rate of interest on deposits, but a differentiating rate, according to circumstances?

Mr. Birdzell. According to the business transacted and the location of the bank and the terms under which deposits may be made?

Senator Glass. Yes.

✓

3-1-e

10

Mr. Birdzell. I would say that we clearly contemplated that a differentiation might be made, taking into consideration those different elements.

Senator Glass. It contemplated it would be made, because we discussed it for hours and hours, in our committee.

Mr. Birdzell. It may be doubtful whether a uniform rate could be prescribed, unless it were found that the conditions justifying a uniform rate were likewise uniform.

Senator Glass. Of course, it should not be -- and there is no more reason why there should be a uniform rate of interest payment on deposits than that there should be a uniform rate of discount throughout the United States. A bank that is limited by State statute to a 5-percent current rate, or a 6-percent current rate, ought not to be expected to pay the same rate on deposits as a bank that is authorized by State statute to pay 8, 10, or 12 percent, or to charge 8, 10, or 12 percent on the use of its deposits.

Does not that seem reasonable?

Mr. Birdzell. Yes, it does."

Both Senator Glass and Judge Birdzell are wrong about this. The provision with respect to prescribing different rates for different localities is clearly permissive and not mandatory. It is perfectly clear that the Board has the legal right to prescribe a uniform rate for the entire country if it considers such action advisable. The question whether we should have a uniform rate for the entire country or whether we should have a different rate for different sections of the country is a question of policy and not a question of law.

You are acquainted with the reasons why it is impracticable to have different rates for different sections of the country; but I am asking Mr. Smead to prepare a memorandum on the subject, as he made the

Governor Eccles -- 3

study which resulted in the Board's decision to have a uniform rate
for the country.

Respectfully,

Walter Wyatt

Walter Wyatt,
General Counsel.