



GRACE NATIONAL BANK

OF NEW YORK

HANOVER SQUARE

NEW YORK

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C. R. DEWEY.
PRESIDENT

March 8, 1935.

*Edmundson would
you like to answer
this letter
MS*

M. S. Eccles, Esq., Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

We have just received your circular letter of February 27, enclosing copy of your statement at the midwinter meeting of the Ohio Bankers Association.

It so happens that the major portion of my banking experience was in a so-called "country bank" in the City of Utica, New York. I have in mind the almost continuous pressure exerted by the Banking Department for many years against the type of loans which tended to render less liquid and more frozen the banks under the jurisdiction of the Superintendent, and I realize now as I did then the wisdom of the Banking Department in taking the position it did. I fear that, if the proposed banking bill is enacted, the provisions rendering it possible to rediscount all sound loans with the Federal Reserve Bank will merely be an excuse to those bankers who had frozen assets to get their banks again into an unsound condition. Aside from the slant which I have as a result of my personal experience, I am absolutely opposed on principle to any program which permits the Federal Reserve Bank to digress any further from the theory on which it was established, namely, that it should serve as a medium for the rediscount of self-liquidating commercial paper.

As to the provisions of the proposed bill to centralize the control over credit, I am in favor of a strong central bank but only on condition that it is entirely divorced from any political control and particularly from the influence of the officers of the Administration in Washington who are charged with the duty of handling the nation's financing. My reason is very simple: No one can be at the same time a borrower and a lender. The Banking Act of 1933 very properly prohibited executive officers from borrowing from their own institutions. No matter how conscientious a bank officer may be it is not possible for any such officer to lend to himself, fix the terms of payment, the rate of interest and the collateral, in an impartial manner. The essence of the present proposal is that the Government shall be at once the borrower and the lender through its control of the lending institutions.

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M. S. Eccles, Esq., Governor

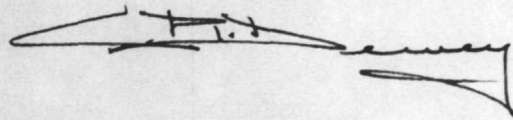
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The experience of France during the past ten years demonstrates how thoroughly unsound and dangerous such a situation can become.

There are many sound features in the proposed banking bill, and it is with great diffidence that I venture to express an opinion so diametrically opposed to those advanced by a person in your high position.

Very truly yours,



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