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March 20, 1935.

Mr. C. R. Dewey, President,
Grace National Bank of New York,
Hanover Square,
New York, New York.

Dear Mr. Dewey:

It was kind of you to write me in regard to my address before the Ohio Bankers' Association and your comments about it are appreciated.

Certain provisions of the proposed bill are highly debatable and there is undoubtedly room for an honest difference of opinion upon them. The provisions relating to rediscounting are not intended to condone unsound banking practices. Instead it is recognized that the confining of the rediscount privilege to commercial loans has not prevented trouble in the past, and the restrictions have had to be relaxed in times of emergency but only after much harm had been done. The liquidity of any class of bank assets comes down to a question of shiftability. In periods when all banks are contracting loans and investments and hence are suffering losses of deposits, no type of asset, whether it be Government bonds, investment securities, real estate loans, or the so-called self-liquidating commercial loan, can be turned into cash without loss. In fact, the latter type has often proved the most difficult of all for the individual bank to liquidate. The proposed bill seeks to provide a machinery that will prevent a rapid loss of deposits by the banking system as a whole and to enable the individual bank which is suffering a drain of deposits from having to dispose quickly of sound assets which could be paid off or marketed over a longer period of time.

In the matter of monetary control the bill proposes to remedy the diffusion of responsibility and authority which is now present in the reserve system and to centralize control in a responsive body which can be expected to take a national viewpoint with regard to monetary policy. Simply because the

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the Board members are appointed by the President does not mean political domination in a sinister sense. Too often in discussing the need of an independent central banking authority we are apt to hold that fiscal needs of the Government should not be taken into account in the formulation of monetary policy. This seems to me to be an erroneous viewpoint. Government finance and business finance are parts of a single financial organization and it is impossible to divorce them. Certainly an independent reserve administration should place fiscal needs on a parity with other considerations. Indeed in times of war or economic emergency, considerations of public finance are of paramount importance to the promotion of healthy business conditions.

Very truly yours,

(Signed) M. S. Eccles

M. S. Eccles,
Governor.

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