P. O. Box 131,
Cincinnati, Ohio.
April 17, 1935.

Mr. Lawrence Clayton,
Assistant to the Governor of the Federal Reserve Board,
Washington, D. C.

Dear Sir:

I thank you for your letter of the 12th, commenting on the booklet, "WHAT YOU CAN DO ABOUT DEPRESSIONS, TAX BURDENS, UNEMPLOYMENT", and pointing out the similarities between some of the views therein expressed and some of the views of Mr. Eccles, Governor of the Federal Reserve Board.

I also thank you for sending me a copy of the Governor's speech of February 12th before the Ohio Bankers' Association at Columbus, in which he outlined some of his conceptions of the objectives of the Banking Bill of 1935.

You conclude that this Bill is a step in the right direction in banking legislation and that it should receive the support of all those who share my views or are within hailing distance of my views.

I have not read the detailed and specific provisions of the proposed Bill, nor analyzed it; and I should greatly appreciate your sending me two copies of the text of it.

I believe, however, from the extracts and some of the discussions I have read of it, that anyone who shares my economic views, or whose views are within hailing distance of them, will be, if not opposed, at least not enthusiastic in support of the Bill.

There are, in my opinion, two fundamental things that must be done by this Nation if we are to have SOUND PROSPERITY and SOUND BANKING. These two fundamental things are as follows:

(1) Enact income tax legislation drawn on the principles outlined in the booklet referred to, with rates for the basis of the tax (not rates for the tax) approximately as high as given therein; and with the provisions applicable to ALL Corporations (not merely so-called personal holding companies) so as to induce adequate declarations of dividends out of net profits (If the above is done, it will not be necessary for the Federal Government to resort to inflationary bank-credit loans, nor to inflationary printing-press money - as inflation is defined on page 44 of the booklet).

(2) Enact banking legislation (with adequate sanctions to induce observance) PROHIBITING inflationary bank loans, inflationary security investments, and investments in fixed assets, beyond a relatively small percentage of the excess of their total assets over their capital stock, of all banks not exclusively investment banks.

The above two things I consider fundamental to sound prosperity and sound banking. As a corollary to No. 2 above, I would suggest a provision that Time Deposits be sub-classified into at least three groups, with perhaps the RELATIVE interest rates between them fixed (or fixable by the Reserve Board) for districts. The classes of Time Deposits should be based upon the time of notice-of-withdrawal required, say 3-months, 6-months, 12-months. These Time Deposits should be saleable to and transferrable to other already existing or then becoming depositors of like-notice or longer-notice class in the same bank. These Time Deposits should also be utilizable, on demand, by the depositor in paying loans due from him to the same bank in which the deposit is held. But all this is more or less just adjunct to the main proposition that inflationary loans are not to be permitted.

The proposed Banking Bill of 1935, as I understand it, does not get at these fundamentals, does nothing much in these directions, and therefore in my opinion would do little if any real good. I understand, of course, that a banking bill is not a tax measure; but I hope it will be so amended as to prohibit inflationary loans, or investments in inflationary loans, by any banks that are amenable to Federal Control, except within definitely prescribed limits - permitted only as a "breathing spell" for the temporary financing of Capital Asset production by bank loans, untillthe proceeds of a security issue sold to investors (other than commercial banks) can cancel these temporary loans off the books of these banks.

Unless the proposed banking bill is amended along these lines, I cannot become enthusiastic about it; and neither do I see how others who share my views more or less closely, can become so.

The present depression has been severe and long. Its severity and its length have been proportional to two factors, namely, the unusually large proportion of the net income after taxes which fell into the hands of large income receivers, and the extremely great and legally permissible bank-credit inflation (as I define inflation) which was actually brought into existance up to the middle of 1929.

Governor Eccles says, in the speech you sent me, that "It also seems evident to me that neither capitalism nor democracy can survive another depression of the magnitude of the one from which we are just emerging". He may be right; I hope he's wrong; because the present depression is just a good sized frisky pup compared with the devouring dog which the next depression will undoubtedly be, unless we wake up soon, quit kidding outselves, show some signs of a sense of reality, and do the needful with some degree of courage and completeness. And the needful, in my judgement, means above all else (1) a more proper distribution of "net income after ALL taxes, and (2) the prevention of inflation in any form.

The already accomplished devaluation of the monetary unit, the vario amendments to the Federal Reserve Act and other Banking Acts already pass during the past two years, (and now the proposed bill of 1935), merely la the ground-work for an immensely greater legally permitted inflation (as I define inflation) than any inflation we have had in the past.

And now to change the subject somewhat:- I do not relish to appear to be hypercritical of any of our governmental Officials, Boards, and Departments; but when I see some of them gathering and publishing tremendous masses of statistics, obtained at considerable expense to the Nation and to its commercial, industrial, and financial concerns, some of which statistics have in my judgement a value quite low in proportion to their bulk, and at the same time see them neglecting to gather and publish statistics which (pardon the 'impolite' expression) get at the GUTS of matters, I sometimes wonder why this is so.

To give just an illustration in the field of banking itself:- The Comptroller of the Currency calls regularly for quite elaborately detailed condition statements from the National banks. Yet for the first time in history (as of May 13, 1933, with the results published in the July 1933 Federal Reserve Bulletin) did a comptroller call for a report of the number of deposit accounts, and the size of their balances (with no division as between Time and Demand deposits).

Those statistics were extremely enlightening. They were not available at the time I published my booklet; but they corroborate its thesis quite strikingly. They showed, for instance, that in all the banks all over this Nation, that were licensed to be open for business on May 13, 1933 --- which was AFTER the general bank closing and bank cleanup, AFTER almost four years of depression, AFTER the so-called 'flight of capital' had taken place ---- we still had a situation which showed that ON THE AVERAGE for the whole Nation, one depositor in every thousand owned $446.00 out of every $1,000.00 of deposits; and that less than 2% of the number of depositors owned more than 68% of the volume of deposits Never since, so far as I know, have such statistics been gathered and published.

What protection is a reserve requirement of 13, or 10, or 7 percent on demand deposits, and 3 percent on time deposits under such a composition of accounts?

Yet another classification of deposits, which so far as I know, have never been gathered, but which I think would be extremely valuable, would be somewhat as follows:

(1) Deposits due to non-debtors of the bank, classified as between citizens and domestic corporations, and foreign.

(2) Deposits due to debtors of the bank, in excess of their indebtedness to the bank.

(3) Deposits due to debtors of the bank (whether debtors on loans or on investments, and whether the loans are still held or have been discounted with a contingent liability), which deposits ar NOT in excess of these depositors' debts to the bank, subclassified as follows:

Deposits due to debtors on loans or investments which are,
(a) Payable on demand, or within 6 months.
(b) Payable after six but not exceeding 9 months.
(c) Payable after 9 months.

(Some debtors might fall into more than one class. In such cases deposits should be set off, so far as they will go, first against the nearest due-date paper; next, to the next nearest; and so on).

I take it as being fairly obvious to anyone familiar with economics and current banking finance that the smaller the proportion of total deposits in the larger-sized-balance accounts, and the larger the proportion of deposits due to debtors of the bank, the sounder is the economic and financial condition of the Nation.

I venture the assertion that had such two classes of statistics been gathered at regular and not too widely separated intervals, prior to the onset of the present depression, the fairly rapid and great weakening of the economic and financial structure of the Nation, beginning at about the middle of 1927, WOULD HAVE BEEN STRIKINGLY OBVIOUS.

I cannot refine these ideas further herein. The letter is already quite long.

Those who have the public responsibility for supervising the operation and proper functioning of our financial and economic system will of course continue to call for such statistics as they feel they need and would find useful. I have merely set forth some of my ideas of the kind of statistics and information I would feel to be necessary to me if I had any direct part in that public responsibility.

Thanking you again for having written to me, I am,

Yours truly,

Klair Klearsight

Klair Klearsight.

Copy to:

Hon. J. F. T. O'Conner,
Comptroller of the Currency,
Washington, D. C.