

111 7-40
10

May 3, 1935

Mr. Rudolf S. Hecht, President
The American Bankers Association
C/o Hibernia National Bank
New Orleans, Louisiana

Dear Mr. Hecht:

The Associated Press article which you enclose with your letter of April 26, and which you say has stirred up quite a lot of discussion in New Orleans, seems to have caused, not in your city only, but throughout the country, more disturbance than any other piece of misinformation--and there has been much of it--published about the banking bill.

Since the article has been widely circulated and discussed, and since it flagrantly misrepresents the facts, I think that it may be appropriate and advisable for me, in answering your letter, to make my comments public and thus put an end as far as possible to the mischief the article has done and the confusion it has created in the minds of many persons who have read it.

Why the article should give rise to so much agitation is evident from the headlines in the newspaper clipping that you have sent to me. This heading, which accurately reflects the contents of the article and the interpretation subsequently put on it by editorial writers and other commentators, is as follows:

3-1-f

ROOSEVELT BACKS
ECCLES PROPOSAL
TO RULE INDUSTRY

Authorization for 'Planned
Economy' Inserted in
Banking Bill

CONTROL OF LOANS
BASIS OF PROGRAM

Credit Would Be Withheld
from Fields of Over-
production

The simplest and most accurate way for me to characterize all this is to say that it is sheer fiction. Like yourself and others who read it, I had never heard of such a proposal on my part until I read about it in the newspapers. It has not at any time ever entered into any discussion of the banking bill in which I have participated, and it would never have occurred to me that any part of the bill might be susceptible of such an interpretation.

The gist of the article is that "Presidential approval is claimed," by persons undisclosed, "for a new move toward a 'planned economy' in which money and credit would be deflected from industries already producing surpluses and used instead to develop fields where demand exceeds domestic supply." In support of this the article quotes the statement of the objective of Federal Reserve policy that, on my suggestion, was incorporated in the banking bill by the House Committee on Banking and Currency.

A reading of this proposed statement of objective should make it evident to any discerning person acquainted with banking matters that the interpretation placed on it in the newspaper article in question has nothing to support it. The text of this statement of objective is as follows:

10

"It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability, and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action and credit administration."

That an objective of this kind is one toward which monetary policy must be directed by any responsible authority would seem to be self-evident. I think that no one would question the obligation of the Federal Reserve System to make every effort to contribute as much as it possibly can to the attainment and maintenance of satisfactory and stable conditions in the field of business enterprise and employment.

The proposed statement of this objective is designed to assert in the banking law the broad constitutional authority of Congress over monetary policy, and to give to the Federal Reserve System a clear-cut definition of the major purposes for which it shall use the powers delegated to it by Congress. But neither this statement of objective, nor any other section of the pending bill, would authorize either the Federal Reserve Board or the Federal Reserve banks to determine the amount of credit that member banks might extend to any branch of industrial, commercial, or agricultural activity.

Under the existing law, the Federal Reserve banks have authority to make loans to member banks on such paper as the reserve banks may find satisfactory within the restrictions prescribed by law. The only change that the pending bill would make in this respect is that, in lieu of the inflexible restrictions now prescribed by law, the Federal Reserve Board would be given discretionary authority to prescribe in general terms the regulations under which the Federal Reserve banks might make advances to member banks on their sound assets. These regulations would of course be applicable to all classes of borrowers alike.

The Board would have no additional powers, under the proposed new law, over credit policies of the Reserve banks in relation to member banks. On the contrary, the Reserve banks would continue to have the responsibility of deciding whether or not an individual asset offered by a member bank was sound and acceptable

3-2 f ✓

It should be recalled in this connection that it is not mandatory on a Reserve bank to extend credit to any member bank on any asset. The Reserve bank merely has authority to do so. No change in this respect is proposed in the pending bill.

Nor is there anything in the proposed new law that would give either the Federal Reserve Board or the Federal Reserve banks additional authority over the loan and investment policies of member banks. The Federal Reserve System, under the existing law, has a responsibility for maintaining sound credit and banking conditions. Within the limit of soundness member banks would remain free under the new law to make, or to abstain from making, such loans and investments as they are authorized to make under their charter powers. The proposed law would in fact remove some of the restrictive provisions of the existing law with regard to real estate loans.

It will be evident, therefore, that, to interpret the proposed statement of the objective of Federal Reserve policy as a grant of power to the Federal Reserve Board to concern itself with the conditions of a particular line of industry as against other lines, is to attribute to it purposes and consequences that are foreign to both the letter and the spirit of the banking bill.

With kind regards and appreciation of your interest,
I am

Sincerely yours,

M. S. Eccles,
Governor

MSB