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SAUK CENTRE. MINN.

March 10, 1948

Hon. Marriner S. Eccles
Board of Governors
Federal Reserve System
Washington, D. C.

Dear Marriner:

The Directors of the Independent Bankers Association are appreciative, indeed, of the luncheon the Board provided us on February 25th. I cannot help but feel that some of our people have changed their opinion a bit about the Federal Reserve System. I know your talk on "Reserves" had a good effect.

I was over to the ABA's office and I was kidding them about their voluntary control of inflation through credits. I told them that if the scheme didn't work, the bankers would be in the doghouse -- if it did work, they would be in the same house. As you said in your remarks, the banking fraternity could have avoided the unfavorable position it will be in by shouldering the problem on to the Board of Governors.

I am enclosing a copy of a letter that I wrote to Emmert Brumbaugh. The trouble with the independent bankers is that we are so damn independent that sometimes we work at cross-purposes.

Yours very truly,

Ben DuBois
Secretary

BD:A
Encl.

APR 14 1948

March 8, 1948

Mr. D. Emmert Brumbaugh
Secretary of Banking
State Capitol
Harrisburg, Pa.

Dear Emmert:

It was a pleasure to visit you as I did last week. I have been giving considerable thought to Section 6 of the Bank Holding Company Bill. As I recall your figures, 55 banks in Pennsylvania might be catalogued as holding companies due to the fact that a bank may own the controlling interest in another bank or in a number of banks. As you said, in a case like this the Federal Reserve Board will decide whether or no the bank could establish a branch and it would leave your Department voiceless.

You also contended and logically, that some state banks might find it more advantageous to nationalize and that there might be a shift to the national system in enough volume to damage our dual system of banking.

Pennsylvania is predominantly an independent banking state. The desire for branch banking has been negligible or the bankers have restrained themselves, feeling that a break-down of our independent system might have repercussions that would be far-reaching. Of late, a number of Pittsburg banks have shown ambitions to extend their holdings.

If those bankers who desire to expand in the banking field would find your Department in opposition, they could form holding companies and do pretty much as they pleased. A holding company doesn't have to ask any of the supervisory authorities for permission to form -- they can buy stocks in as many banks as they wish and in the amount that satisfies them. There is nothing in the present regulations that I know of that withholds them from their ambitions. The holding company is a super-bank structure and to leave it void of regulation, doesn't seem to be logical. If a group of people wish to start either a state or a national bank, they must show reason why a charter should be granted. When granted, the institution comes under the direction of either the state or the national bank authorities.

Mr. D. Emmert Brumbaugh

I naturally know little of the bank statutes of Pennsylvania but I doubt if there is anything that would restrict the formation or the expansion of a bank holding company. Bank holding companies are relatively new; they are all a product of the 20th Century. During that relatively short period of time they have shown great expansion possibilities and more bank holding companies are continuously entering the field. Some of them are well-managed -- others are not and unless regulated, there will be a day of reckoning. We believe that the bank holding company, as it now stands without regulation either as to its formation or expansion, can be more detrimental to our dual system of banking than any section that is now contained in the proposed legislation

I have sometimes thought that the Federal Reserve by indirection hoped to bring about a condition where we would have one system of banking and that, national banks. I have changed my view as it doesn't seem to me that my former position was logical. I do believe, however, that there are many in banking, including the Federal Reserve Board, that feel that all banks should be members of the Federal Reserve System and in a complicated economy such as ours and with finance the life blood of business, there appears to be a pretty sound argument for full membership. I realize with all banks in the system, that some state banks to avoid duplication of examination might like to nationalize. In most states there are advantages in being a state-chartered bank and even if all banks were members, I still think our dual system would prevail.

Frankly, as I grow older I am less afraid of government bureaucracy than I am of monopoly. Too much power has a bad effect upon those that have the power but an entrenched financial corporation is not as susceptible to public sentiment as is a bureaucracy. Government appointees have a short official life -- their power is not as continuous as the upper men in a corporation.

I cannot help but feel, Emmert, that the danger, even to your State, of banking concentration is quite pronounced -- that your state-chartered banks will be caught in this trend of centralization unless there is more regulation and restriction than the laws now provide. When banks own banks, it is chain banking. We have always thought that chain banking was bad practice wherever it exists and the mere fact that in the past these chain bankers have conducted themselves well, is not complete indication that great abuses will not creep in in the future. If this bill that we are now supporting isn't passed in this Congress it will probably be a long time before a bill governing the bank Holding company can be enacted and during that period, great damage can be done not only to the banking system as a whole but particularly to independent banking and by the same token -- our dual system of banking.

I have written you at length but I know that our friendship is so strong, that you will read clear through.

P #3

Mr. D. Emmert Brumbaugh

Reached home safe and sound and find that during my absence we had a real snowstorm -- it has snowed a number of times since my return and it looks as though Spring is a long way off. We have really had a tough winter and when we people in this country talk about tough winters, we know whereof we speak.

Yours very truly,

Ben DuBois,
Secretary

BD:a

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MAR 12 1948
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION
APR 4 1948

March 15, 1948.

Dear Ben:

As Mr. Eccles decided to take a much needed respite for a week or ten days in Florida, I want to acknowledge your letter of March 10 on his behalf. We had, of course, hoped that meetings with your distinguished group as well as with State banking associations were productive of better understanding all around and it is good to have your informed opinion.

From my many years of observation close at hand here on the Reserve Board I do not know of any Board member, including the erstwhile Chairman, who wants to bring about, directly or indirectly, the end of the dual banking system. It is true that Mr. Eccles, among others, would like to see membership in the System general but, of course, no one knows better than you that this is a very different subject.

I thought your reasoned and reasonable letter to Emmert Brumbaugh was all to the good. I still have some hope that the Bank Holding Company bill may get through even at this crowded pre-convention session.

Best regards.

Sincerely yours,
(Signed) Elliott Thurston

Mr. Ben DuBois, Secretary,
The Independent Bankers Association,
Sauk Centre, Minnesota.

- For Circulation
- First to Mr. Szymczak
- Mr. Szymczak.....
- Mr. Draper.....
- Mr. Evans.....
- Mr. Vardaman.....
- Mr. Clayton.....
- Mr. Thurston.....
- Mr. Merrill.....
- Mr. Carpenter.....
- Mr. Hammond.....
- Mr. Sherman.....
- Mr.
- Mr.

Please note check and return to Mr. Szymczak

ET:b

FOR FILES
A. L. Yates