January 27, 1948.

Honorable Charles W. Tobey, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C.

Dear Senator Tobey:

Thank you for your letter of January 20th and its enclosure. I have read with much interest the letter which you received from Mr. Mattingly and am happy to offer my comments upon the points which he makes respecting the Board's bank holding company bill.

It seems to me that the over-all tone of Mr. Mattingly's letter suggests that his chief objection to S. 829 is his belief that the bill is an "administration" measure of a kind which he terms the "New Deal" variety. Nothing could be farther from the truth. As I pointed out to your Committee when it conducted hearings on this bill, S. 829 reflects the experience of the Federal Reserve System over a period of 14 years dealing with bank holding company problems. It was particularly designed to fill up the gaps and loopholes that soon developed in the legislation which Congress passed in 1933 on this subject, so that the purposes of the earlier legislation might in fact be realized. If it has "long been included in the Democratic legislative program", as stated in Mr. Mattingly's letter, then its sponsors have taken a rather unique way of demonstrating that fact. As your own Committee records will show, to this day there has been no expression of any kind from the Treasury Department or any other agency of the Government which might be said to reflect the views of the "administration" on this bill. Nor was there any "administration" support forthcoming at the time Senator Wagner introduced the Board's first bank holding company bill back in 1945 -- although upon reflection I must confess that I do not know how anyone, including the Board, could have supported a bill as complex and involved as was that draft. In any event, although we sought Treasury approval at that time (as we have sought it for S. 829), we have never yet received it, at least in any overt form.

Mr. Mattingly's specific criticisms of the bill likewise seem not to be well founded. In fact, a reading of them leads me to suspect that he has not himself taken the time to study the bill in detail. For example, he makes reference to an alleged "death sentence" which he purports to have found in the bill. The fact is, however, that neither this

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

bill nor its predecessor contains any "death sentence" provision. The earlier bill did propose that Congress "freeze" bank holding companies at their present size and not permit any bank holding company to expand further, regardless of whether or not expansion in a particular case might be in the public interest. S. 829 makes no attempt even to "freeze" existing situations, but authorizes expansion subject to certain statutory standards which prevent such expansion from approaching unreasonable or dangerous limits.

Next, Mr. Mattingly states that the bill requires "small groups of stockholders of banks" to register with the Board and to divest themselves of their otherwise legitimate non-banking assets. However, only bank holding companies are required to divest themselves of non-banking assets; and there is no attempt in the bill to make individuals into bank holding companies (as is the situation under the Public Utility Holding Company Act of 1935), unless they be an "organized group of persons" such as a voluntary association, group of trustees, or the like. Hence, there is no requirement that groups of individuals dispose of their non-banking assets simply because they own shares in two or more banks. Incidentally, as you may recall, it was the requirement that bank holding companies divest themselves of their non-banking assets which won almost universal support in the Committee's hearings, and for the reason that it puts bank holding companies under the same prohibition as are banks -- they may not engage in non-related business activities while at the same time controlling the deposits of large numbers of the public.

Finally, Mr. Mattingly makes the charge that the bill threatens the dual federal and state banking systems and would destroy much of the authority of state banking officials over banks which are not now subject to the Board's jurisdiction and have no desire to be. You may recall that this same charge was made during the Committee hearings, and that I later appeared to controvert it together with certain others that had been made by the Morris Plan representatives. I think one paragraph from my statement on that occasion contains the complete answer to this charge. I said:

> "I am and have long been in favor of wider membership in the Federal Reserve System. I have urged unification in that sense and only in that sense. This does not mean doing away with State chartering or the State banking authorities, with whom the Federal Reserve System has long worked very closely. We have in the Federal Reserve System nearly 2,000 State member banks having aggregate deposits of 40 billion dollars, or approximately two-thirds of the total deposits of all State commercial banks. It is preposterous to contend that, by extending holding company legislation to reach all such companies, which in turn will subject a relatively few nonmember banks to regulation as a part of a holding company system, this would affect in any way the established dual banking system in this country or that the Board has any such purpose in mind in this or any other legislation."

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

It seems to me that it might not be amiss to call Mr. Mattingly's attention to the fact that this bill not only bears the Board's endorsement but that it is supported by the members of the Federal Advisory Council, the Reserve City Bankers Association, the two independent banking associations (membership in which is nation wide) and practically all of the major bank holding companies themselves. In addition, the Bankers' Associations of Utah, Oregon, Colorado, Texas, Minnesota, North Dakota, South Dakota, Michigan, Wisconsin, California and Montana have all recently passed resolutions at their respective conventions endorsing the bill. And finally, after extended hearings before the Banking and Currency Committee, that Committee voted unanimously to recommend its passage to the Senate. Certainly the minute scrutiny to which the bill has thus been subjected by each of these expert bodies ought to have developed fully the weaknesses as well as the strength of the proposed legislation. In any event, it must surely relieve the measure from any charge that it has been presented to Congress solely for the purpose of furthering a particular brand of political philosophy, be it Republican or Democratic.

I hope that you will find yourself in agreement with these comments and, if so, that you may pass them on to Mr. Mattingly at an appropriate time. I return his letter herewith.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

JLT:fcc
1/23/48

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

COPY

REPUBLICAN NATIONAL COMMITTEE

Barak T. Mattingly
Member for Missouri

706 Chestnut Street
St. Louis, Missouri

January 14, 1948

Senator Charles W. Tobey
Temple,
New Hampshire

Dear Senator Tobey:

During the meeting of the National Committee I hope to talk to you personally concerning my opposition to the Bank Holding Company Bill (S-829 - HR-3351) now before the House Committee on Banking and Currency. Meantime I wish to bring to your attention certain features of the Bill and its history.

The Bill was introduced in 1945 by Senator Wagner for the New Deal Administration. However, it met such general opposition that the Roosevelt-appointed Board of Governors of the Federal Reserve System, which had undertaken the job of drafting the Bill, withdrew it for further alterations. These changes are largely patterned after the "Corcoran-Cohen" legislation of the early 30s dealing with public utility holding companies. The Bill, despite the changes, still bears the hall-marks of New Deal philosophy, including a very unfair and unnecessary "death sentence" clause. This requires even small groups of stockholders in country, town and small city banks to subject themselves to involved registration with the Federal Reserve Board in Washington and to divestment by enforced liquidation of their perfectly legitimate and sound non-banking investments. Such drastic measures are totally unnecessary.

It has seemed to me that this Bill, in addition to the objectionable features stemming from its origin in New Deal theories, now so unpopular, is just the type of "cure-all" legislation which the country in the 1946 elections indicated it was "fed up" with. In addition, the Federal Reserve Board has inserted one of its periodic attempts to destroy the dual federal and state banking system, and with it much of the authority of state banking officials, by stretching Board jurisdiction over many state banks which are not now subject to the Board and have no desire to be.

This Bill is an Administration matter and has long been included in the Democratic legislative program. It has, in major part, been drafted by an ex-counsel of the Securities and Exchange Commission originally appointed by the New Deal Administration, who was taken over by the Board to advance some of Mr. Eccles' pet economic theories. Because of its many bad features, it would seem most desirable that this measure <u>not</u> be considered at this Session of Congress, and that if any action shall later prove necessary it be deferred until after the 1948 elections when the Republicans take over.

I expect to see you in a week or two and talk this over more at length, but I wished to get my ideas to you as early as possible.

Very truly yours,

(signed) Barak T. Mattingly

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis