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Form 2-C

May 11, 1935

Mr A P Giannini
Head Office
Bank of America N T & S A
Los Angeles California

Information requested mailed yesterday airmail special delivery
best wishes

Lawrence Clayton

Telegram

Wailes to A.P.G.

about 5/2/35

No business more vitally affects the public interest than banking. Bankers meet a large part of the borrowing needs of the country. They provide the agencies through which the bulk of the country's payments of all kinds are made. An expansion or contraction of credit concerns not only the bankers, who are really only middle-men, but everybody in the community. Bankers should stick to their jobs as financial middle-men. They should leave the responsibility for monetary and credit policies to a public body specially constituted and qualified to discharge that responsibility.

I believe that a majority of the bankers feel as I do, although there is a popular impression that the bankers of the country are opposed as a class to the Banking Bill of 1935. However, while a special committee of the American Bankers Association criticized the Bill, this committee felt that if certain amendments proposed by it could be enacted, the Bill would then be beneficial. Aside from this official expression, a number of prominent individual bankers have opposed the Bill. Analysis of their objections reveals the fact that their opposition is directed almost entirely to those provisions which place in the Federal Reserve Board control of national monetary policies.

This raises a fundamental issue as to whether the banking system of the country should be left exclusively to private direction or whether there are some features of the banking system ^{by nature} which are ~~by nature~~ of public rather than of private concern. Certainly as regards the function of making loans in each community, supplying currency,

handling and clearing checks and other such service functions, banks are engaging in strictly private business and should be left entirely to their own talents of management and control. These activities we might call banking per se. If this were the extent of the entire field of American banking, there would be little need for government or public supervision and control. However, anyone who understands the money system as it exists today, particularly the creation and extinguishment of the total supply of money through the lending and investment policies of the private banks, knows full well that there is a public aspect of banking which demands public control.

It is, of course, common knowledge that most of the means of payment consist of bank credit. An expansion of bank credit throughout the country increases the total supply of money. By the same token a contraction of bank credit throughout the country diminishes the total supply of money. This variation in the supply of money bears a vitally important relationship to the economic life of all the people. Therefore these functions of banking which relate to the expansion or contraction of the country's supply of money are not the concern of the bankers alone.

I think that the assumption by private bankers of the responsibility for these functions would be dangerous to the future of private banking in this country. Private banking is sufficiently on the defensive without having to bear the onus for the mistakes of those few bankers who are in a position to determine monetary policy. Let us as bankers

strive to serve the interests of our depositors, borrowers and stockholders as ably as we can and place the responsibility for the determination of what is really public policy unequivocally in a public body. That is not only the proper attitude for bankers to take, but from a purely selfish point of view it is the most prudent. The sooner we recognize that the provision of the money of the country is a public trust and not a private privilege, the better it will be for us.

I take no stock in the "political domination" argument against the Bill. The Federal Reserve Board is a political body only in the sense that its members are nominated by the President and confirmed by the Senate. So are the members of the Supreme Court. Nor does it follow, as the critics of the bill assume, that because the Federal Reserve Board is in this sense a political body it must necessarily be subservient and inefficient. It has not been so in the past. It is not true of many other public bodies with which I have had contact. In fact I should say that from the point of view of honesty and efficiency, the public service compares favorably with private. For one thing, public bodies operate under the full glare of publicity and their shortcomings are public property. When in recent years the floodlight of publicity was turned on various private activities, including banking, the disclosures were far from reassuring.

I am fully aware that public as well as private bodies may be subservient and inefficient. I think the framers of the bill were likewise aware of this and did everything they could to ensure that the

Federal Reserve Board will be both an efficient and an independent body. Enhanced prestige should follow enhanced authority and responsibility. The new pensions and higher salaries, the new qualifications for members of the Board, and the newly defined objective of policy, should all contribute to the efficiency and independence of the Board.

The only feature of the present makeup of the Federal Reserve Board which could properly be pointed to as "political control" is the presence on the Board of two ex officio members who are habitually appointed by each incoming President from his leading political supporters, namely the Secretary of the Treasury and the Comptroller of the Currency. These members, however, hold office by virtue of the existing law and not through the proposed bill. I, therefore, think that if an attempt is to be made to insulate the Board from political influence, the most logical suggestion is to remove these two ex officio members from the Board. It is my personal opinion that this would be a desirable amendment to the proposed bill.

I favor the banking bill for other reasons. It facilitates the entrance of non-member banks into the Reserve System and thereby contributed to that greatly-needed reform, the unification of banking. The House of Representatives has voted to remove the provision that non-members shall not share in deposit insurance after July 1, 1937. This I very much deplore. The cause of banking reform in this country would be immeasurably harmed unless the action of the House is reversed.

Another reason why I favor the bill is that it recognizes that banks should meet the requirements not only of commercial borrowers,

whose loans constitute a small portion of banking assets, but also the requirements of other borrowers for other types of loans. Most of the community's credit needs are for periods longer than three months. The banks have plenty of money on hand, including a large part of the savings of the community, to make longer loans. If they do not meet the borrowing needs of their communities they can hardly complain if other agencies, including the Government, meet such needs. The development of government lending agencies, however, constitutes another threat to the future of private banking in this country. Therefore, I welcome those provisions of the bill which, by shifting emphasis from the maturity of loans to their soundness, will make it safer for banks to serve their communities with various types of credit accommodation.

In this I think I speak for the majority of bankers who know perfectly well that they can neither serve their communities nor earn money for their banks unless they are prepared to make longer-term loans.

There is much irony in the fact that those big city banks which are now righteously insisting that loans should be restricted to commercial borrowers are the very ones which for years have placed the bulk of their funds in security loans and investments.

13044

Bank of America

NATIONAL TRUST AND SAVINGS ASSOCIATION

SAN FRANCISCO HEADQUARTERS

A. P. GIANNINI
CHAIRMAN OF THE BOARD OF DIRECTORS

SAN FRANCISCO, CALIFORNIA

May 15, 1935

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

My dear Mr. Clayton:

In Mr. Giannini's letter to you of yesterday, he enclosed a copy of the article for the magazine "Today".

He has since made a few additional changes in the article, with telegraphic advice to the publishers of the magazine, and he asked that a corrected copy be also sent to you. You will find it enclosed.

Very truly yours,



For Mr. A. P. Giannini.

ARTICLE FOR "TODAY"

No business more vitally affects the public interest than banking. Bankers meet a large part of the borrowing needs of the country. They provide the agencies through which the bulk of the country's payments of all kinds are made. They create what has been aptly termed deposit currency or check money which is the chief medium of exchange. An expansion or contraction of deposit currency concerns not only the bankers, who are really only middle-men, but everybody in the community. The violent fluctuations in the amount of deposit currency may not make booms and depressions. That question is highly controversial. But everyone does agree that these fluctuations accentuate them. If bankers will stick to their jobs as financial middle-men they will earn back the confidence they have lost. In the past their responsibility for monetary and credit policies has at best been a fiction for they have of necessity left these matters to certain New York private banks with international ramifications whose influence has been dominant and whose first duty was neither to the public or to the other banks but to their own stockholders. The banks themselves, as well as the public, will be better represented if they place this vital responsibility on a ~~public body~~ specially constituted and qualified public body. ~~to discharge that responsibility in the interests of the whole nation~~

I believe that a majority of the bankers feel as I do, although there is a popular impression that the bankers of the country are opposed as a class to the Banking Bill of 1935. However, while a special committee of the American Bankers Association criticized the bill, this committee felt that if certain amendments proposed by it could be enacted the bill would then be beneficial. Most of these

amendments have been adopted. Aside from this official expression, a number of prominent individual bankers have opposed the Bill. Analysis of their objections reveals the fact that their opposition is directed almost entirely to those provisions which place in the Federal Reserve Board control of national monetary policies.

This raises a fundamental issue as to whether the banking system of the country should be left exclusively to the direction of a few private bankers or whether there are some features of the banking system which by nature are of public rather than of private concern. Certainly as regards the function of making loans in each community, supplying currency, handling and clearing checks and other such service functions, banks are engaging in strictly private business and should be left entirely to their own talents of management and control.

I think however that the assumption by private bankers of the responsibility for functions which in every other country are matters of public concern would be dangerous to the future of private banking in this country. Private banking is sufficiently on the defensive without having to bear the onus for the mistakes of those few bankers who are in a position to determine monetary policy. Let us as bankers strive to serve the interests of our depositors, borrowers and stockholders as ably as we can and place the responsibility for the determination of what is really public policy unequivocally in a public body. That is not only the proper attitude for bankers to take, but

from a purely selfish point of view it is the most prudent. The sooner we recognize that to provide the country with a sound and flexible medium of exchange is a public trust and not a private privilege, the better it will be for us.

I take no stock in the "political domination" argument against the bill. The Federal Reserve Board is a political body only in the sense that its members are nominated by the President and confirmed by the Senate. So are the members of the Supreme Court. Nor does it follow, as the critics of the bill assume, that because the Federal Reserve Board is in this sense a political body it must necessarily be subservient and inefficient. It has not been so in the past. It is not true of many other public bodies with which I have had contact. In fact, I should say that from the point of view of honesty and efficiency the public service compares favorably with private. For one thing, public bodies operate under the full glare of publicity and their shortcomings are public property. When in recent years the floodlight of publicity was turned on various private activities, including banking, the disclosures were far from reassuring.

I am fully aware that public as well as private bodies may be subservient and inefficient. I think the framers of the bill were likewise aware of this and did everything they could to ensure that the Federal Reserve Board will be both an efficient and an independent body. Enhanced prestige should follow enhanced authority and responsibility. The new pensions and higher salaries, the new qualifications

for members of the Board, and the newly defined objective of policy, should all contribute to the efficiency and independence of the Board.

The only feature of the present makeup of the Federal Reserve Board which could properly be pointed to as "political control" is the presence on the Board of two ex-officio members who are habitually appointed by each incoming President from his leading political supporters, namely the Secretary of the Treasury and the Comptroller of the Currency. These members, however, hold office by virtue of the existing law and not through the proposed bill. If a further attempt to insulate the Board from political influence is desirable, then consideration should be given to the suggestion of the Special Committee of the American Bankers Association that these two ex-officio members be removed from the Board. Personally, with Reserve Board members appointed for twelve years, or eight years beyond the Presidential term, and with no provision for removal of Board members except for malfeasance, I do not see where this added precaution is necessary.

I favor the Banking Bill for other reasons. It facilitates the entrance of non-member banks into the Reserve System and thereby contributes to that greatly-needed reform, the unification of banking. The House of Representatives has voted to remove the provision that non-members shall not share in deposit insurance after July 1, 1937. This I very much deplore. The cause of banking reform in this country would be immeasurably harmed unless the action of the House is reversed. I do not, however, wish to see existing small banks harmed or legislated out of business, and I would favor some way by which, as to existing

small banks only, the requirement of Reserve membership could be so reduced or the time for compliance so extended as to make membership not only possible but desirable.

Another reason why I favor the bill is that it recognizes that banks should meet the requirements not only of commercial borrowers whose loans constitute a small portion of banking assets, but also the requirements of other borrowers for other types of loans. Most of the community's credit needs are for periods longer than three months. Even in the best of times the amount of such short term paper has been insignificant compared with total bank deposits. It has now almost reached the vanishing point. The banks have plenty of money on hand, including a large part of the savings of the community, to make longer loans. If they do not meet the borrowing needs of their communities they can hardly complain if other agencies, including the Government, meet such needs. The development of government lending agencies constitutes another threat to the future of private banking in this country, and for that reason all banks should welcome those provisions of the bill which shift the emphasis from the maturity of loans to their soundness, ^{and thus} ~~this provision will~~ make it safer for banks to serve their communities with ^{the} ~~various~~ types of credit accommodation which they actually require. Had the emphasis, in the past, been on sound assets rather than rigid technical requirements many of the rigors of the depression might have been avoided. As Dr. Goldenweiser, the statistical expert of the Reserve Board, has testified, there was not at one time sufficient paper meeting these technical requirements to back the necessary note issue and the

monetary structure of the nation was temporarily jeopardized, and, as he has further testified, with banks failing in large numbers the Reserve Banks were legally unable to assist them because of technical requirements that bore no relation to the borrowing needs of the nation. It is neither customary in practice elsewhere nor sound in theory to surround the discount operations with rigid requirements which the business needs of the country are sure to outgrow.

There is much irony in the fact that those big city banks which are now righteously insisting that loans should be restricted to commercial borrowers are the very ones who have most widely departed from this principle and have, for years, placed the bulk of their funds in security loans and investments.

The bill represents, I am convinced, a distinct forward step. It is not a radical document sprung from the brains of theorists but it has its roots in twenty years of practical experience with the Federal Reserve Act as tested by the worst banking depression in history.

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