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Bank of America

NATIONAL TRUST AND SAVINGS ASSOCIATION

SAN FRANCISCO HEADQUARTERS

A. P. GIANNINI
CHAIRMAN OF THE BOARD OF DIRECTORS

SAN FRANCISCO, CALIFORNIA

October 21, 1935

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

Dear Mr. Clayton:

I thought you and your Chief would be interested in reviewing the enclosed report, which will be acted upon by the Economic Policy Commission of the American Bankers Association at its meeting in New Orleans, November 11 to 14.

The report was prepared by Colonel Leonard P. Ayres, Vice President of the Cleveland Trust Company. He has purposely avoided a discussion of controversial subjects such as banking legislation, federal activities in the field of banking, or most of the other banking problems that are now inescapably conditioned by federal activities, and has formulated instead a review of business conditions and prospects.

It is unnecessary for you to return the report to me but, needless to say, if you have any comments to make concerning it, I should be pleased to hear from you.

Cordially yours,



Chairman
~~XXXXXXXX~~

October 28, 1935.

Mr. A. P. Giannini,
Bank of America,
1 Powell Street,
San Francisco, California.

Dear Mr. Giannini:

This will acknowledge yours of October 21st in which you enclosed for my personal consideration a draft of the proposed report of the Economic Policy Commission of the A. B. A. to be submitted at the New Orleans meeting next month.

In general I find this statement very fair and logical. I would suggest, however, one or two small changes which are my personal ideas and not at all reflective of any opinion of the Board or its staff. At the bottom of page 1 there is included among the factors asking for an increase in consumer purchasing power "the refinancing of farm and urban mortgages." I agree that this has brought about increased consumer purchasing power, but not simply because such mortgages have been refinanced. The point is that this refinancing has been done on a lower interest basis and with longer maturities as to principal. This results in a lower per annum cost of carrying such mortgages, consequently the mortgagor is willing to spend more for consumer's goods. Mr. Ayres of course understands this fully, but I think it would be better from the point of view of the average reader if the clause read something like this: "the refinancing of farm and urban mortgages at lower interest rates, generally longer maturities and easier principal installments."

On page 6 there is an interesting discussion of inflation which concludes that there is no real danger in sight, with which I entirely agree. The definition of inflation, however, is not too fortunate in my opinion when it is stated that "rapid advances in the general level of the prices for commodities, is a phenomenon that develops when the demand for goods is so active that would-be buyers bid up the prices of the goods in order to get them, while sellers are reluctant to part with them." I would prefer to say that the demand for

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goods becomes greater than the volume of production can accommodate, consequently sellers are unable to satisfy all buyers and the bid price goes up. My particular objection is to the statement that "sellers are reluctant to part with them." This puts the accent on the mental attitude of the seller rather than on the fact that he sells willingly at the rising prices, but is sorry that he hasn't more goods to sell. The sentences following are right in line with my conception of the situation, namely, that there is sufficient unused productive capacity at the present time to take care of a considerable increase in the demand for goods of all kinds which, as Mr. Ayres points out, tends to retard further price advances. To my mind, inflation does not come until the demand exceeds or at least largely absorbs total productive capacity, in which case prices must inevitably rise.

I think the summary and conclusion is very good and as stated at the beginning, the entire report is fair and logical. The suggestions I have made are purely matters of refinement and you may not feel that they improve the statement in any way.

I am returning the article herewith and appreciate your courtesy in referring it to me. When are you coming to Washington again?

With kindest personal regards, I am

Yours sincerely,

(Signed) Lawrence Clayton

Lawrence Clayton,
Assistant to the Chairman.

Enclosure
LC/fgf