

Office Correspondence

FEDERAL RESERVE
BOARD

Date December 14, 1935. 205001

To Chairman Eccles

Subject:

From Mr. Clayton

16-852

E.G. mentioned to Elliott and myself that as soon as the February 1 date line is safely past a great deal of "selling" should be done with reference to yourself and your policies. When I asked what the bankers were still crabbing about with reference to you he stated that the Columbus speech was still mentioned as having made them critical and distrustful.

Shortly after the above discussion I noticed in the Wall Street Journal a report of the speeches of Bob Fleming and Sloan Colt at New York on 12/12/35 and I find that these two big-shot bankers are singing the same tune you sang at Columbus. And such is the intelligence of both the bankers and the press that I am fully prepared to see comment shortly both by bankers and by the press that Messrs. Fleming and Colt have sounded a new approach to the banking problem and that their arguments are sound, based on fact, practical, etc., in contrast to the crack-brained ideas of the Administration.

At Columbus you said: "Banks cannot live on the interest of such a small volume of loans and an attempt to confine themselves to these loans would greatly curtail the scope of banking. The more business the banks refuse the more will be handled by other agencies, including the Government, and the less room will remain for the operations of the private banking system. . . . Release of banking funds in these fields would enable the Government to diminish its expenditures and to reduce the rate of growth of the public debt."

The Wall Street Journal gives Bob a headline and subheadline as follows: "R. V. Fleming Proposes Search for New Investments for Banks — Would Boost Earnings and Help Get Government Out of Field." Following this is said ". . . he urged less insistence on liquidity and entrance into the fields of lending now supported by government credit." A little farther along it is said: "With particular reference to the intervention of the Government in the banking field, Mr. Fleming remarked that 'you can see how this strikes right at the heart of bank earnings.'"

Regarding eligible paper and the change that has taken place in bank assets you said at Columbus: "It is suggested that banks in the future should confine themselves to short-dated commercial loans and investments. But I need not tell you that, if this suggestion were acted upon, the result would be fatal to the banks. In October 1934 the eligible paper of member banks, within the meaning of the Federal Reserve Act, amounted to only slightly more than \$2,000,000,000. No doubt, based upon your past experience, you would find that a much smaller amount would be acceptable if it were offered to the Reserve banks. Even in 1929 this paper amounted to only 4½ billion dollars."

Mr. Colt said on Thursday: "The speeding up of production and transportation has resulted in a lessening need for large inventories with a corresponding diminution in commercial credit requirements. At the same time the concentration of both production and distribution into the hands of large corporations which

Chairman Eccles - 2.

December 14, 1935.

are able to acquire adequate and even surplus working capital through the sale of securities has been perhaps an even more important influence tending toward the same result."

ZC

21