

TO \_\_\_\_\_

FROM \_\_\_\_\_

REMARKS:

1949 -- Mr. Thurston suggested that he would like to show this file to Mr. McCabe, to give him some idea of Mr. Eccles' troubles with the Advisory Council.

Upon Mr. Eccles' consent, Mr. Thurston did show the file to Mr. McCabe.

GOVERNOR ECCLES' OFFICE

# The First National Bank of Denver, Colorado

Denver, Colorado

JOHN EVANS,

PRESIDENT

May 23rd, 1940

PERSONAL and  
CONFIDENTIAL

Dear Marriner:

Clear and invigorating Colorado sunshine tends to dispell the added depression that I felt during the after the Council Board meeting last Tuesday and on the long journey back to God's part of our country!

The present national emergency but strengthens my views that in the public interest the downward spiral of lower and lower return upon money should be arrested and that, not only as individuals but officially as the highest monetary authority, the Board should publicly sound the warning against its continuance and endeavor in every way possible through the strenuous period ahead to have oncoming gold and increased deficit financing so handled as to arrest as far as may be possible this downward spiral. To me, the very magnitude of the problems ahead intensifies the need.

In reference to the reply to the Board's inquiry on this general subject, I objected to the first draft presented to the Council and spent considerable time and effort in its revision, endeavoring to make it entirely objective. Some members of the Board evidently felt I did not succeed. You will recall that John McKee all too plainly told the Council what he thought of its intelligence and you expressed yourself that it was an impolitic position for the Council to take.

If the objective is well reasoned and genuinely felt to be in the public interest, I for one am willing to bear any resulting odium - personally or as a participating member of the Council. What most troubled me was Chester Davis' expression that quotations from the Board's reports were chosen which should not be considered standing alone but as part of a whole and were, along with other implications, unfair to the Board. Certainly I had no such intent nor, to the best of my judgment, did any member of the Council. As far as one in my modest position could do so, I would wish to commend and assign the fullest credit to the individual members of the Board for each and every constructive effort made in any direction which would in part tend to stem this downward spiral but if the Board does not speak officially on this complex subject, what other public body so well understands the problem and could furnish the requisite leadership? Certainly the independence of the Board from all domination from the big money centers is generally recognized and I feel it to be one of the country's greatest blessings today.

This letter is written for but one objective: Will you or any member of the Board please carefully review the Council's statement objectively and without deviating from the fundamental argument - perhaps even strengthening

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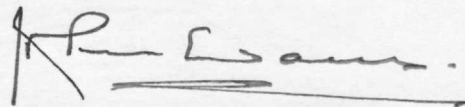
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it where it can be strengthened - strike or alter any word or phrase that the Board feels is directly or by implication unfair? I would be particularly appreciative if affirmative commendation of every effort that any individual member of the Board has made in the Direction of its main objective could be included. If such suggested reply to the Board's inquiry on this subject could then be forwarded to me I would like to submit it at the next meeting of the Council, as my suggested substitute for the present draft.

In closing, I am prompted to make one general comment which I can do as though in retrospect, for my term on the Council will soon have been completed: I believe it to be a fact that the Board, with its commendable independence, nevertheless fails sadly, contrary to the intent of the statute, to avail itself of the constructive advice of a group of experienced men, themselves bearing heavy responsibilities, who are endeavoring to render some public service at no little inconvenience to themselves and without compensation. I attribute this failure principally to the faults of organization and procedure. Entirely impersonally and without intent to under-estimate the value of Dr. Lichtenstein's services or his great ability, I feel that the Council should have, resident in Washington and officing in the Federal Reserve Building, a secretary solely responsible to the Council and yet of sufficient parts and intelligence to work with the Board and command the respect of both Council and Board. Such a secretary could keep the Council currently, more accurately and confidentially informed and the value of the Council's independent judgment would be less likely to be sacrificed through misconception or misunderstanding.

I feel I can speak thus critically and frankly to you because of my respect for your sincerity, courage and independence, and beyond that, because I have come to feel a warm personal friendship for yourself and other members of the Board.

Sincerely yours,



Marriner S. Eccles, Esq.,  
Chairman, Federal Reserve Board  
Washington, D. C.

JE/s

June 10, 1940.

PERSONAL AND CONFIDENTIAL

Mr. John Evans, President,  
The First National Bank of Denver,  
Denver, Colorado.

Dear John:

This is to thank you for your letter of May 23, to which I would have replied earlier had I not agreed to attend the D. C. Bankers Convention at Hot Springs, so that I have been away from the office for the past week. I am glad that the clear and invigorating Colorado sunshine helped to dispel the gloom that you felt after attending the meeting of the Advisory Council with the Board.

Unfortunately, I have not been able, on further reflection, to dispel the depression that this meeting left with me. It is dismaying, to say the least, when twelve representative bankers, who presumably are reasonably well informed and certainly have access to the facts, unanimously join in such a statement as the one presented by the Council. No mere alteration of a few words or phrases in it would remove its chief emphasis, which amounts to a denunciation of the Board which it holds primarily responsible for conditions that the Board did not bring about, could not avert, has moderated almost to the limit of its authority, and could not materially change if it were to dissipate all of its authority, including the sale of the entire portfolio.

Boiled down to its essence, the statement proposes that the Board use its authority and its position to castigate the Administration for a series of policies and acts that are disliked by the bankers. For the most part, the policies assailed are highly controversial and, in any case, I do not believe it is the function or responsibility of this Board in the public interest to launch such an attack.

I am not going to burden you in a letter with further discussion, for I stated in part at the meeting why I feel that the Council's approach is unrealistic as well as unfair to the Board.

However, there is one point that perhaps deserved more emphasis. You will agree, I am sure, that the present and growing volume of excess reserves is due primarily to gold imports which arise, in turn, chiefly on trade balance. That is to say, we have been able to have a favorable balance because we have permitted foreigners to obtain dollar exchange through the medium of gold--not goods. You will also agree, I am sure, that interest rates cannot be expected to firm up materially, if at all, while we have any such volume of excess reserves as we have permitted to accumulate and are still permitting to accumulate. What does the Council, as a practical matter, propose to do about it? Give the Reserve System sufficient authority to offset the gold? I tried to get exactly that authority in the Banking Act of 1935, and the Council, joining with other banker opposition, first sought to kill the bill altogether by relegating it to "further careful consideration and study", which was the tack taken by all who wanted to defeat the bill. But if that failed, the Council proposed--and I quote again from the Council's formal statement presented to the Banking and Currency Committees of both Houses--"that the limit to which reserve requirements can be increased be restricted to thirty per cent of the aggregate of demand and time deposits". "This exception," the Council's statement said, "is most essential for there can be no conceivable emergency which would justify higher reserve requirements."

Unless the Council has changed its mind--and there was no evidence of that in the current recommendation--it is fair to assume that it does not favor dealing with the problem by giving this System sufficient authority to offset the gold. Is it prepared to face a second alternative, dealing merely with future gold acquisitions, that is, recommending that we stop taking gold? The Council is silent on that line of attack on the problem. A third alternative would be to reduce tariffs drastically, so that instead of a favorable balance we would have an unfavorable balance of trade that will draw off the gold surplus. In other words, is the Council prepared to recommend that we take goods instead of gold, and take goods in such quantity as to induce an export of gold? I doubt that the Council would choose that horn of the dilemma.

The Council's suggestion for "readopting sterilization", which would, of course, entail increasing the public debt by as many billions as there are excess reserves to be absorbed by this means, is wholly unrealistic. There isn't the remotest possibility that Congress, reluctant to increase the debt limit even for the emergency of national defense, would agree to increasing it in order to accomplish what could be done without cost to the Government by the simpler and more familiar

process of increasing reserve requirements. Only a lack of familiarity with the way Congress operates, or an assumption that the Congress could be hoodwinked, would justify the supposition that the Congress would vote to increase the public debt by several billions and pay interest on it to the bankers whose excess reserves were to be absorbed when the same purpose could be effected without cost to the United States. If there are any other alternatives for meeting the problem, I am not aware of what they could be.

Yet, if this problem is to be faced with any realism at all, we must take some line of action and choose among the alternatives, or a combination of them. Frankly, while I am not interested in raking over the record and trying to fix blame, the Council's record is not very good. It is not improved, to my mind, by an attack on this Board, which did exhaust all the authority over reserve requirements that I was able to get in the Banking Act of 1935, despite the Council's opposition, and did put the System for a time in control of the situation. It got out of control again through no fault of the Board or of the System. Yet it could have been kept under control had the Board's powers not been circumscribed in accordance with the views of the opposition, including the Council.

In the face of the record, it strikes me as ironic, to put it mildly, that the Council should come in here at this late date and undertake to hold this Board in any way responsible for extremely low money rates.

The Board's question to the Council was proposed in good faith with the thought that it was an appropriate question, particularly in the light of the Council's interest in this important subject, and that it would elicit helpful, constructive suggestions which might be of value to the Board. Instead, it appears that the Council, for some reason, had the impression that the Board's purpose was to embarrass it or some of its members, and the reply evidences a bias and a desire to blame the Board which I can account for only upon the theory that the Council did not take the question in good faith at all.

While your suggestion with regard to some permanent secretarial organization being established by the Council in Washington might be helpful, I must confess that I am not optimistic, for it seems to me that the Council has had access to information, to facts and all the help that the members of the Board and staff could furnish, yet not one dissenting voice was raised to the presentation of a document that I think you are well aware from the attitude of every member of the Board is regarded as unfair and unjust.

Beyond that, however, as I said before, I think it is totally

Mr. John Evans

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June 10, 1940

unrealistic. It is not important whether we feel unjustly criticized or not, for it is a proper function of the Council to criticize what it sincerely believes to be defects or failures of the Board. However, when criticism is based on what to my mind is such a distortion of the facts, and when it appears to be inspired by suspicion or animus, I may be pardoned for wondering whether you can correct the fundamental difficulty merely by having a permanent secretary here.

But I shall say no more, for I have already said more than I intended. I respect, as you know, your own independence, your sincerity and your desire to render public service. I need not add that I value your friendship and appreciate your complimentary personal references. Events are moving so swiftly that this episode seems comparatively unimportant, yet I have the unhappy feeling that it is significant of an all too prevalent attitude among conservative groups in this country, who either have not got their thinking straight on national problems such as this one, or are unwilling to face the facts and deal with them in a realistic way.

Sincerely yours,

M. S. Eccles,  
Chairman.

EE:b

# The First National Bank of Denver, Colorado

Denver, Colorado

JOHN EVANS,  
PRESIDENT

August 5th, 1940

## PERSONAL

Dear Marriner:

Your letter of June 10th was deeply appreciated. I have deliberately delayed this reply because I have felt the pressure of events must have weighed heavily upon you and other members of the Board and because in longer retrospect I have wanted to urge the Board to take a more tolerant and objective view of the Advisory Council's position on the "easy money" problem.

That existing extremes are of grave public import - I think no one will deny - that some change in trend in the face of vast Government necessities ahead would be beneficial to the national economy - seems axiomatic.

The Council urges the Board to use its authority, even though it be limited, as well as its unlimited influence, to reverse a monetary and credit trend that it feels has reached a stage harmful to Government and to private enterprise alike.

Criticism of past decisions, which the Board deemed justifiable at the time, is of little value except it be of constructive aid in formulating future policies and avoiding even more dangerous extremes. Hindsight is certainly clearer than foresight. The statement of causes of extreme "easy money", even though involving some criticism, either of omission or of commission, if made as objectively as possible, should not be unreasonably interpreted as denunciation. Very frankly, it seems to me that you jump to an unwarranted conclusion when you take the position that the Council urges the Board to "castigate" the administration - of which the Board is recognized as but a part. Certainly no one would expect the Board to launch anything even remotely resembling an attack upon the administration - but vast changes have occurred in the monetary and credit fields and what may have, in entire good faith, been felt to be in the public interest yesterday may not be so tomorrow. If a doctor had prescribed digitalis - might it not be in a patient's interest at some stage to reduce rather than continue or increase the prescription? Might not a wise doctor do this without "castigating" himself for a prior prescription given by him in the best of faith?

In longer retrospect, I too have reconsidered the Council's reply. Personally, I wish its emphasis were more upon the objective and that it were still more specific in recommendation. However, upon deliberate reconsideration I trust the Board may feel, and I think justifiably, that it is more judicial and



THE FIRST NATIONAL BANK OF DENVER

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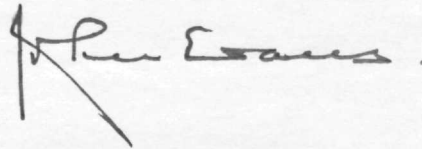
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objective and less prejudicial and hostile than it was first regarded. It is the uncertain future that interests most and not the past and I am still committed to the view that there is wisdom in council.

Trusting you will advise me in advance if you are going through Denver on your way West, I am, with warm personal regard,

Sincerely yours,



Marriner S. Eccles, Esq.,  
Federal Reserve Board  
Washington, D. C.

JE/s

P. S. Speaking not as a member of the Advisory Council, I personally believe the Board should promptly exhaust its present authority to increase reserves and reduce its portfolio to the System maintenance point, and concurrently seek from the Congress authority to further increase reserves so as to offset the excesses at least to the point of regaining effective controls. I do not know by what formula the required reserve ratios were determined as between Central Reserve cities, Reserve cities, country banks, demand and time deposits. Obviously, in seeking enlarged reserve authority the practical effect on the member banks should be carefully weighed, primarily to minimize liquidation of their existing loan portfolios, and secondarily to cause as little liquidation of bond portfolios as possible. Sound reasons may be developed to alter, under present conditions, the old 13-10-7-3 percentage requirements so as to minimize as far as possible the added requirements from primary banks.

August 23, 1940.

Mr. John Evans, President,  
The First National Bank,  
Denver, Colorado.

Dear Mr. Evans:

Just before leaving for a belated vacation in the West, the Chairman asked me to acknowledge receipt of your letter of August 5, a reply to which he had discussed at length and had dictated in general outline, but did not have an opportunity to complete for his own signature. As he had talked it over with me, he suggested that I tell you in a very general way what, I know, he could put so much more effectively in his own persuasive words.

However, the main point is that he would have no particular objection to following your suggestion that reserve requirements be raised to the remaining limit, and that the portfolio be sold down to the point of System maintenance. About \$1 billion of the present \$6-1/2 billions of excess reserves would be absorbed by the first step. The portfolio as of August 21 had been worked down to \$2,446,000,000, which is the lowest point reached since August of a year ago just before the large purchases necessitated by the outbreak of the war. The present yield of the portfolio is only a few millions more than enough to cover System expenses. You are aware, of course, that these steps would have no appreciable effect on the rate structure and would by no means go to the heart of the problem. Nevertheless, I think the Chairman feels as you apparently do that the Board would be in a better position to follow up its Annual Report for 1938 asking Congress for further authority to deal with the excess, if it has first done all that it reasonably can with its limited powers.

The Chairman wanted me to point out that, as you doubtless recognize, the problem is inseparable from that of unifying the System, since it is not reasonable to subject only member banks to increased reserve requirements or to expect that that could be effected when membership is optional. At the same time, the Chairman thinks it would be essential to deal with the causes, not simply the effects -- in other words, to face the gold and silver issues. And this in turn is,

August 23, 1940

of course, bound up with the tariff problem. In effect, we have declined to take goods, but have provided dollar exchange and sustained our trade balance by taking gold, plus silver purchases.

If I may make an observation of my own, I see no fundamental difference between the Chairman and what I think you feel about the situation. Without favoring high rates at this stage, he nevertheless recognizes, as you do, that the rate structure is excessively low, that this is not desirable, but that it is inevitable so long as we have this present and prospective avalanche of excess reserves under which the System's authority is hopelessly submerged. He would deal with the reasons for this state of affairs, not stop with absorbing the effects. And, following this logic, he feels that it is necessary to deal also with the divided powers as between the System and the Treasury, as well as with the division of supervisory and examining functions.

May I say further that I earnestly hope the May 20 statement on easy money will be filed away, for its publication would very badly muddy the waters.

Had it been possible for him to do so, I know that the Chairman would have liked to have stopped off in Denver on his way West, but his schedule this time did not permit it.

Sincerely yours,

Elliott Thurston,  
Special Assistant  
to the Chairman.

ET:b

THE FIRST NATIONAL BANK  
DENVER, COLORADO

October 24th, 1940

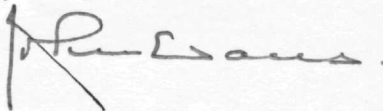
JOHN EVANS  
PRESIDENT

Dear Marriner:

To facilitate consideration of the subject matter of the enclosures by the individual members of the Board, I am taking the liberty of sending copies to each of them and to Dr. Goldenweiser. I have discussed the matter with Dr. Goldenweiser and urged his study, correction and refinement of the memorandum. I am confident there is much merit in the suggestions outlined and only wish I were able to present them with greater clarity. Obviously, they must be adopted affirmatively as an Administration program or discarded. As soon as politics can be brushed aside I hope you will take occasion to discuss them fully with the President and the Secretary.

With warmest personal regards, I am

Sincerely yours,



Marriner Eccles, Esq.,  
Chairman, Board of Governors  
The Federal Reserve System  
Washington, D. C.

JE/s

# The First National Bank of Denver, Colorado

Denver, Colorado

JOHN EVANS,  
PRESIDENT

October 24th, 1940

Marriner Eccles, Esq.,  
Chairman, Board of Governors of  
The Federal Reserve System  
Washington, D. C.

Dear Governor Eccles:

For some time past I have been convinced that far too great a proportion of the resources of all member banks of the Federal Reserve System have been concentrated in one form of investment - namely, the obligations of Government - and at such market levels, during a period of extreme easy money, that a moderate rise in interest rates might easily endanger the continuation of the very institution of private banking which could scarcely survive another major impairment of capital requiring restoration by Government.

The danger appears real indeed now that the national economy is undergoing a rapid conversion from a state of excessive idleness of capital and of labor to a state of activity not generally appreciated, due to the magnitude of the National Defense Program. As the demand for goods and services increases, all prices including the cost of credit normally advance. If it be true that "ounces of prevention are worth pounds of cure" the banking structure, as well as the deposit guarantees of Government, should be protected in advance of a clearly indicated change.

Indeed, a moderate upward change in the return upon capital and credit would be beneficial to the economy as a whole - interest rates should be allowed to respond to increased demand, and, while adhering to a general policy of ample credit and monetary ease, the destructive and dangerous extremes of easy money now prevailing should be corrected. The defense program should be financed as largely as possible from increases in taxes - and taxes will be more difficult to collect from an economy drugged with such excessively "easy money" that initiative and risk-of-capital-for-gain are destroyed. The current benefit of abnormally cheap money to the Treasury is of fleeting value if the goose that lays the golden eggs called "tax receipts" be killed. To the extent that the financing of the defense program cannot be secured from increased tax receipts and must be secured by increases in the Federal debt, such increases should be secured from individual and corporate investors including insurance companies, trusts and savings institutions and not from banks of deposit.

The enclosed memorandum outlines a general plan which would, among other objectives, protect the banking structure against the capital impairment which would result from an otherwise beneficial rise in interest rates. A form of Government obligation for refunding of bank holdings is suggested most suitable and protective of the banking structure - much as a form of savings bond was wisely devised to best meet the needs of and protect individual savers.

THE FIRST NATIONAL BANK OF DENVER

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Marriner Eccles, Esq., -

10/24/40

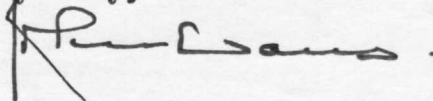
The memorandum is intended to present a general idea and should be carefully checked in the statistical and research division for factual accuracy and correction of any possible over- or under-statement or error. I would greatly appreciate its careful consideration by the Administration generally; particularly by the Treasury and by the Board of Governors and others vitally concerned with sound fiscal and monetary policies.

If upon critical analysis it is found to be sound and in the ultimate interest of the public whose money is deposited in the member banks, it should be taken up with the President and advanced as an Administration program and not as the suggestion of any unit of the Administration or of any individual.

Undoubtedly, many bankers, feeling that the suggestions call for increased controls and loss of just so much independence of action, would at first, and I think short sightedly, be opposed, without fully realizing that they have already collectively lost exactly that degree of independence by their voluntary aggregate investment program. Individual banks retain that freedom of action only so far as one unit may outguess the market and sell to another or surrender to freezing deposits, largely due on demand, into such investments to their maturity.

A recent survey indicates that in the larger or reserve cities four out of ten persons do not understand the public value of the institution of private banking and even go so far as to believe that the Government should own the banks. On the other hand, informed persons know of the vast contribution the institution of private banking has made, (under reasonable regulations and controls) to our free-enterprise profit-motive economy under which our people have attained the highest average standard of living and the widest distribution of material wealth ever before realized by any people throughout the history of the world. The institution of private banking must be protected and preserved through this period of grave uncertainty and change even from its own lack of foresight.

Yours very truly,



P. S. Obviously, these suggestions are made to those in authority by me personally and not as a member of the Federal Advisory Council with whom the suggestions have not even been discussed.

P. P. S. Since the preparation of the memorandum my attention has been directed to a paper presented at the annual meeting of the American Statistical Association, Philadelphia, on December 28th, 1939, by Lawrence H. Seltzer, Esq. of Wayne University entitled "The Problem of our Excessive Reserves". If your attention has not been directed to it, it is an extremely clear and able presentation. I would particularly call your attention to Solution #5 entitled "Requiring Additional Reserves in the Form of a Special Series of Treasury Obligations".

TO \_\_\_\_\_

FROM \_\_\_\_\_

REMARKS:

The attached letter was not mailed to Mr. Evans as the Chairman talked to him personally. Mr. Thurston suggested that the letter be held for future reference.

meh

CHAIRMAN'S OFFICE



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

OFFICE OF THE CHAIRMAN

November 12, 1940.

PERSONAL AND CONFIDENTIAL

Mr. John Evans, President,  
The First National Bank,  
Denver, Colorado.

Dear John:

I have been much interested in your note of October 24 enclosing your letter of the same date and your memorandum with regard to refunding with consols the governments held by member banks and by the System open market account and requiring member banks to hold an increased reserve requirement, averaging 23 per cent, in these consols.

With what you have to say in your letter, I generally concur, as to the rapid transition we are now undergoing to a stage of great activity, as to the extremes of easy money and as to the necessity for getting the bank credit structure under control. Similarly, I agree that we should plan to do as much of the financing of the defense program as possible out of increased revenue from taxation, and that insofar as it is necessary to borrow, the Government should sell its securities to individual and corporate investors, including insurance companies, trusts and savings institutions, rather than to the commercial banks.

I think your memorandum is an excellent presentation of the plan which would, in effect, sponge up the bulk of the excess reserves into consols which, replacing the present holdings of the banks, would give them a long-term interest rate return on what amounts to a short-term or demand obligation of the Government. Very likely, if the plan could be put into effect, it would accomplish the purposes you have in mind, but at the same time you will recognize, I think, how difficult it would be to put such a plan into effect. The Congress would balk at paying such a premium to a preferred class of bondholders, that is, to the banks in order to accomplish what could be brought about by the familiar steps of increased reserve requirements, without paying such a premium. The idea that the banks would get some protection against the risk of price declines in governments would not, I think, appeal to the Congress as a privilege that should be extended, if at all, only to the banks.



Mr. John Evans

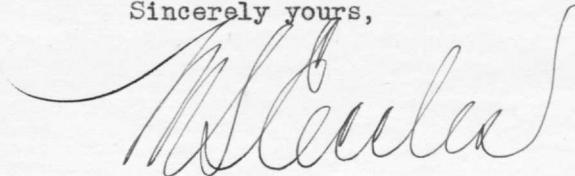
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November 12, 1940

Nevertheless, I am glad that you have taken the interest, the time and trouble, to go into this difficult subject so thoroughly, for it deserves exploration and serious consideration. If more of our colleagues in the banking field were as thoughtful and interested, we would not have much trouble in finding the right solutions for some of these urgent problems. I felt that I should not attempt by letter to go into various ramifications of the plan because, I understand, copies have already been sent to you of the memoranda and analyses prepared under Dr. Goldenweiser's direction in his division. But I wanted you to know that I was much interested and have given the plan a good deal of thought as a result of your letter and memorandum, which I read very carefully.

I shall look forward to seeing you in connection with the "easy money" matter, but the more I think of it, the more I am inclined to believe that, in view of the heavy pressures we are all under and the urgent matters ahead, it would be advisable to let the matter rest rather than to spend very much time trying to reach agreement upon a joint statement.

Sincerely yours,

A large, elegant handwritten signature in cursive script, which appears to read "M. S. Eccles". The signature is written in dark ink and is positioned centrally below the "Sincerely yours," text.

M. S. Eccles,  
Chairman.