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Federal Deposit Insurance Corporation
Washington

Office of the Chairman

May 18, 1943

My dear Marriner:

In your recent testimony before the committees of Congress and your discussions with me you have confirmed the position taken by you in your letter of January 22, 1943, addressed to Mr. Thomas D. Neal, Secretary of the Virginia Bankers Association, and forwarded to us with your letter of January 26, 1943.

As you know, of course, we in the Federal Deposit Insurance Corporation are not in agreement with your position.

In the Corporation we deal with more than 13,000 banks operating under at least 52 different supervisory agencies, laws, and jurisdictions. We have not been overwhelmed by the overlapping and duplication against which you and your associates continuously inveigh. Our relationships with the State supervisory authorities have, on the whole, been friendly, constructive, and worthwhile. There has been a minimum of confusion between them and us. We value highly their counsel, assistance, and support in pursuit of our common objectives of sound bank supervision - the protection of depositors.

As I understand it, you believe in a unified banking system with extensive branch banking, all operating under Federal charter and with all supervision and control concentrated in a single Federal bureau, also charged with the responsibility for the control of the amount, flow, and cost of credit in the country.

As you so well know I have a deep distrust, growing out of my own business, banking and political experience, with the concentration in the hands of any few men, whoever they are and wherever they are - in business or in government - over what the President calls "other people's property and other people's lives". I do not want this country, in the search for paper systematization, to become like Germany.

Your picture would look pretty on paper. It would gratify any particular group of bureaucrats in Washington in whom, after you and I are gone, the fortunes of politics would concentrate such power over the savings of depositors on one side of the banking structure and the credit-dependent livelihood of individual businessmen on the other side of that structure. But the dangers it would bring to the mass of democratic individual citizens by giving control over their economic life to those few people in Washington, would outweigh whatever benefits might accrue from such centralization of power - and I think those benefits are theoretical. In measuring efficiency we should not confuse the ability to make decisions quickly with the ability to make them well and the ability to avoid widespread consequences of poor decisions.

Furthermore, I do not subscribe to the general belief that the large banks, whether or not branch systems, are more efficient in the broad sense of the term than are the smaller ones. Area by area and under similar economic circumstances the large banks have not shown a more favorable experience on their assets than have the smaller banks.

The record of suspensions over the past two decades and of the problems connected with the licensing of the banks in 1933 is not sufficiently conclusive to support the contention that these institutions by their size provided added strength to our banking structure.

Even were I disposed to grant, which I am not, that these large financial institutions were more "efficient" than our smaller ones, I would still favor our present dual system of privately owned, independent banks and would be opposed to a so-called unified banking system and to both holding company banking and branch banking. Maintenance of fields of opportunity for the small business man has always seemed to me to be essential for the preservation of our system of private enterprise and political democracy. An important adjunct to such a system is the operation of numerous independent banks.

I am prepared, therefore, to put up with a fancied loss of "efficiency" in order to preserve the kind of system I believe in, and I am prepared to recommend provision of such additional machinery and organizational devices as may be desirable to facilitate its operation. I think the American banking system, like the American form of government, should be fitted to the end result of the greatest individual freedom and opportunity for the individuals who make up the American people. I believe that the American banking system should be tailored consciously to the kind of life Americans want to lead.

You do not appear to be convinced of the soundness of the principles of deposit insurance. I believe that deposit insurance, coupled with effective bank supervision and an adequate rediscount system, is an effective and workable alternative to the extensive system of large branch banks which you advocate. It has been my hope that the Board of Governors of the Federal Reserve System and the Federal Reserve banks would also give more effective support to our present kind of banking system by broadening the scope of their activities to provide central banking facilities for the whole banking system rather than for only a special group of banks.

With two Federal agencies dealing with the supervision of State banks and one of them also concerned with problems of credit control and membership, deviations from the primary objective of bank supervision - protection of depositors - are apt to occur. We face the danger not only of a confusion of objectives but also of the development of competition in laxity of supervision. As a consequence, weaknesses in individual banks may develop more easily and be checked with greater difficulty and may, therefore, lead to unwarranted drains upon the Federal deposit insurance system. The dissociation of supervisory responsibility from the administration of the deposit insurance fund is particularly undesirable in that it permits the supervisor to avoid his ultimate responsibility to depositors by placing the onus of failure upon the deposit insurance fund which, under such circumstances, lacks authority to provide or insist upon remedial measures. The people would again lose confidence in the integrity of our banking system and our banking and financial administration just as they did ten to twelve years ago before the Federal Deposit Insurance Corporation was created. In my judgment, therefore, the time must inevitably come when all Federal supervision of insured State banks is centered in the Federal Deposit Insurance Corporation.

In view of our differences it is not surprising that complete uniformity of policy between the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation appears impossible of achievement. I am by no means sure, however, that many of the differences which have obtained between our two agencies have not been of benefit to the public. Any tendency to extremes in either agency has been held in check and at least part of the improvement in administration of Federal law and functions in the banking field has resulted from the competitive interplay of ideas between the two independent agencies. What is needed now is not so much a consolidation of all banking agencies into a super-bureaucracy as a conscientious effort to make effective and workable those facilities and that protection which Congress intended to provide, and the diligent discharge by public agencies of their duties and responsibilities with adherence to the principles of public policy established by Congress and the various State legislatures.

I appreciate the frankness with which you always deal with questions at issue between us. It may never be possible for you and me to be in full agreement because of basic differences in our philosophies. It is a matter of satisfaction to me, however, that we are able to disagree in some matters without such disagreement affecting our ability to work together harmoniously. Composition of at least part of our differences with respect to the organization of our banking system appears to me to be more possible of achievement than this letter would indicate at first glance. We might discuss this matter further at some mutually agreeable time.

Sincerely yours,

(Signed) Leo T. Crowley.

Leo T. Crowley,
Chairman.

Honorable Marriner S. Eccles, Chairman
Board of Governors of the Federal Reserve System,
Washington, D. C.

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August 4, 1943.

Dear Leo:

Compared with the urgent and momentous problems which confront you under your new responsibilities, the ancient controversy over banking organization seems rather remote. Nevertheless, since you sent me a lengthy and skillfully drawn letter, raising anew these banking questions and inviting an answer, I could do no less, for the sake of the record, than to send you a reply. Its length attests the comprehensiveness of the document you sent me as well as the wealth of argument on the other side of the issues. Since I read your letter, I trust that you may find an opportunity to read mine, and that we may continue to discuss these questions in the same spirit of frankness and friendliness that has continued to prevail between us.

Let me take this occasion also to wish you every success in your new undertakings.

Sincerely yours,

Honorable Leo T. Crowley, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C.

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August 4, 1943.

My dear Leo:

As I advised you in my acknowledgment of May 31, I wished to reply to your letter of May 18 when the pressures of these times afforded me an opportunity to do so.

Your letter touches upon so many questions, most of which have been the subject of controversy for many generations, that it is not possible to deal with them adequately in an exchange of letters. We can do little more than outline our respective general viewpoints, and my primary purpose in this reply is to correct some misconceptions that you appear to have as to my views. For you will not be converted to my ideas, or I to yours, by correspondence, and since you have remained impervious over the years to my irrefutable logic, I am not sanguine about redeeming you from error at this late date by personal discussions between us. Nevertheless, I always welcome them and I take satisfaction in the fact, as you do, that our differences have not marred our friendship or our ability to work together harmoniously.

As you recognize, we approach these problems of banking from fundamentally different viewpoints. They are not basically irreconcilable, for we both desire to preserve our system of free enterprise under democratic institutions. You think that end will be better served by continuing the dual system of banks, some chartered by States, others by the Federal Government, some operating under State laws and supervision, some under Federal, and some under a mixture of both.

You state that in dealing with "more than 13,000 banks operating under at least 52 different supervisory agencies, laws, and jurisdictions", you encounter no serious difficulties, and find your relationships with the State supervisory authorities, on the whole, "friendly, constructive, and worthwhile", with "a minimum of confusion between them and us". Yet you say further on that when it comes to having two Federal agencies dealing with supervision of State banks, you "face the danger not only of confusion of objectives but also of the development of competition in laxity of supervision". So you propose to unify Federal supervisory authority over State banks in one agency. And that, of course, turns out to be your agency! But when it comes to any unifying beyond this, you are against it.

Now, we get along very well, too, with the State authorities. I know a good many of them individually and favorably. I am sure I could get along with them collectively just as amiably if I could be content with things as they are. But I have an unhappy inclination to look at the past and to try to peer into the future, which makes complacent acceptance of things as they are very difficult. I have the disturbing idea that improvement is necessary if our institutions are to live and flourish as I believe they can and should. This leads me to advocate what I consider to be improvements in banking organization to serve the public interest as I see it.

The basic reason why you and I are far apart in our thinking is because you approach the subject primarily from the standpoint of a supervisory and examination function. That is a necessary part, but it is only a subordinate part of the picture as I look at it. To me the banking system is a vital cog in the mechanism through which a stabilizing influence should be exerted to help keep the economy moving forward on an even keel. In conjunction with other broad functional factors it can contribute to the maintenance of reasonably full and sustained employment. It can operate to help offset the extreme fluctuations between deadly deflation and equally disastrous inflation. For the banking system is the creator, not merely a custodian, of our money supply. If it were simply a custodian, then I would be content to concern myself only with examining it or supervising it sufficiently to see that nobody was making off with other people's money. You conveniently close your eyes to its far more important function, that of creator of credit which is the very lifeblood of our business, industry and agriculture. I say "conveniently" because you are far too well informed to be blind to all this, even if I had not spent a good many hours over the past few years in giving you a free education on the subject.

Unless you do close your eyes to it you cannot, logically, believe that the only change needed now is to concentrate "all Federal supervision of insured State banks" in your agency. Indeed, only by viewing banking examination as the paramount concern of public policy and ignoring or relegating to the background the far more important credit-creating function of the banking system can you conclude that you should be the recipient of exclusive Federal authority over the State banks, instead of unifying the divided authorities in the Federal Reserve System which is vested by Congress with primary responsibilities over the creation and use of bank credit. Only by so playing up the examination function and playing down the credit function, can you reach the conclusions, first, that nothing more needs to be done to protect the public interest except to give you more supervisory powers and, second, that coordination between examination policy and credit policy is a matter of such insignificance that the two can be dealt with by entirely different and separate agencies.

Your faith in the efficacy of bank examination to protect the interests of depositors, to say nothing of the borrowers, whether they be farmers or those in other businesses, is hardly justified by reason or by the record. Over the years, enormous sums have been spent on bank examination. No other country on earth has expended so much in time and money on this activity. It did not and could not, of itself, protect the depositors, stockholders or customers of the 12,115 banks that went to the wall during the 20's and the early 30's. Of this terrific toll, 9,964 were State banks, having aggregate deposits of $4,778,828,000 while 2,151 were national banks with deposits of $2,244,530,000 -- and practically all were what you would call independent unit banks. Even during the so-called prosperous 20's, when the price level was fairly stable, there were 5,411 bank failures -- 4,645 of them being State banks. Banks that survived the vicissitudes of the 20's did not owe their survival to bank examinations. None could have weathered the economic disaster of the early 30's by remaining wholly "independent" of the help which the Government extended, directly and indirectly, when it was finally obliged to come to the rescue.

In contrast with the record of bank failures in this, the richest country on earth, from the beginning of the 20's and up to the time of the bank holiday, there was but one bank failure in Canada, involving only minor loss to depositors, and not a single bank failure in England. Branch banking, which you so strongly oppose, prevails in both of these democratic countries, and bank examination, on which you so heavily rely, cannot be said to exist at all, in the form in which we know it, in either of these countries.

The record in this country might have been much better -- it could hardly have been much worse -- had examination and chartering policy been more restrictive and if, especially after the crash of '29, runs had been averted by deposit insurance. But the fact remains that the dual system, the vaunted independence of the unit bank, are conducive to fatal weaknesses. Deposit insurance cannot cure those weaknesses, and the attempt to do so by making chartering and examination policy more and more restrictive would lead only to depriving the public of needed banking services in innumerable communities and to fresh Government encroachment upon the field of private banking enterprise in order to furnish the credit services that the banks are unable to supply.

Since the bank holiday, the rising price level has made good the assets of numerous banks that were closed then and of many that would not have been reopened had strict examination policy been uniformly applied. The rising price level, not deposit insurance, has reduced bank mortality to a minimum. Yet the fatal weaknesses in the dual system of independent unit banks are reflected even today, during the greatest of all war booms and despite the vast growth of deposits, in the difficulty which the great bulk of the smaller units are having in making a living. The solution is not more and more restrictiveness applied to a basically faulty structure, but a unified system with properly regulated branch banking.

No amount of bank examination, or supervision, or of "independence" can protect the banks against a general economic collapse. The true interest of bankers, depositors and customers is in preventing a recurrence of any such national disaster. And a rational coordination between broad credit policy, integrated with examining and supervisory powers, is one of the primary essentials in such a program and purpose. To the extent that this fundamental and all-important objective is attained, the need for deposit insurance is reduced. I carry fire insurance on my property. I do what I can to avoid fire risks from carelessness or recklessness, so that fire will not start on my premises. But no amount of insurance or carefulness will protect my property if a conflagration breaks out that sweeps the countryside. I am, accordingly, deeply interested in doing whatever is possible to prevent such a holocaust. It seems to me that you are so preoccupied with policing each "independent" bank and building up an insurance fund that you lose sight almost entirely of the larger dangers.

A somewhat similar viewpoint dominated bank examination policy prior to the agreement of 1938 among the Federal bank supervisory authorities, to which you subscribed. You will recall that I took the initiative in seeking this agreement because I was convinced that bank examination policy had tended to intensify both deflations and inflations. Bank examiners, looking merely at an individual bank's portfolio, attempted to appraise it on the basis of day-to-day fluctuations in market values or in quotations on the exchanges. Thus when times were booming, bank examiners exerted no restraining influence as long as current values soared, even to the most dangerous speculative, inflationary levels. On the downside, however, as values fell and business found it more and more difficult to make collections and to pay off bank loans, bank examination policy put on the screws. Liquidation and deflationary forces were accelerated by bank examination procedure which marked more and more loans slow, doubtful or bad, until the imminence of or actual impairment of bank capital not only cut off further extensions of credit, but led to putting existing bank borrowers under the severest pressure to pay off their loans at the very time when they were least able to do so, and when the wholesale liquidation served only to reduce business activity still further and to increase unemployment still more. That sort of bank examination policy not only operated perversely, but it was based on the false assumption that each "independent" bank could provide its own liquidity. The frantic effort of every bank to get liquid made a bad situation infinitely worse, just as on the upside the yardstick of current market valuations fed the fires of speculation and inflation.

The great merit in the agreement of 1938, as I view it, was that it recognized, first, that the myth that each bank could provide its own liquidity had been exploded, and, second, that bank examination policy would in the future be guided by considerations of intrinsic values rather than liquidity or quick maturity. And in shifting the emphasis from day-to-day market fluctuations to inherent soundness of loans and investments, the implication -- certainly in my mind -- was that bank supervisory authorities saw at last that they must look to broad, national economic measures to protect the banks, their stockholders, depositors and borrowers, and not merely to individual bank examinations, however meticulous, or deposit insurance, however large the insurance fund. I cannot, therefore, subscribe to your view either that bank examination is, of itself, an adequate safeguard or that it should operate separate and apart from the broader considerations of national credit policy.

The true logic of your own position, since you see a "danger" in divided Federal supervision over State banks and thus want it all put under your wing, is to take over, as well, the Federal Reserve System and its statutory powers over bank credit. Speaking only for myself, I am not so much concerned as to where these powers are lodged as I am about bringing them together so that they can be properly coordinated and directed toward a common objective. And that objective, as I see it, is one of contributing, insofar as monetary action can contribute, in conjunction with fiscal and other broad functional powers of the Government towards a more stable economic progress than we have experienced in the past or can reasonably expect in the future unless these great powers are more intelligently coordinated and used than they used to be.

Accordingly, while I feel as kindly and friendly towards the State banking authorities as you do, it does not necessarily follow that I must refrain from advocating what some of them may not like. It does not persuade me that an intelligent and rational fiscal and monetary policy can be pursued by this Government if the authority to make and execute such a program is scattered and divided amongst a mass of unrelated and uncoordinated agencies, both State and Federal. I think the Reserve Board accurately described the situation in its Annual Report for 1938, when it described the banking picture as "a crazy quilt of conflicting powers and jurisdictions, of overlapping authorities and gaps in authority, of restrictions "making it difficult for banks to serve their communities and make a living, and of conditions making it next to impossible for public authorities to apply adequate restraints at a time and in conditions when this may be in the public interest".

"Bureaucracy" is a favorite political epithet at the moment and you profess to see a danger of its intensification in case the more than 52 separate Federal and State "bureaucracies" were converted into a more unified and simplified set-up. If that is multiplying instead of reducing "bureaucracy", then I leave to you the explanation of how that could be. If the bank supervisory pattern in this country, with its veritable army of employees, its multiple jurisdictions, agencies, laws, rulings and regulations, to say nothing of the enormous cost, is not a horrible example of bureaucracy, the dictionary and popular meaning of that word needs to be changed.

In your letter you express concern for the business men of the country who are dependent upon the banks for credit. It is because I want to see them assured of needed and deserved credit, at reasonable rates, because I want to see credit policies so coordinated and managed as to make for and not militate against economic stability, that I cannot view complacently the crazy quilt of conflicting powers and jurisdictions that characterize the present banking situation.

If it were possible, as you seem tothink, despite the past record of failures, to have thousands upon thousands of "independent" banks sufficiently dispersed throughout this vast country to serve every community that needs banking services, and sufficiently strong and diversified in their lending or investing to weather periodic ups and downs, if I did not know from the more than two decades that I have spent as a banker that this is a dream that not even the most diligent bank examination policy can make real, I would not see in properly supervised branch banking, limited at least to trade areas if not more narrowly circumscribed, a logical remedy for some of the banking ills of the past. There is nothing novel in that conclusion. The same considerations that have brought about extensive branch banking in other countries will ultimately compel it here, regardless of whether you continue to oppose and I to favor it. In time, the opponents, powerful and vocal as they have always been, will not be able to keep up the pretense that they are thus defending State rights and the interests of the farmer and the little business man. The true source of the opposition to branch banking is notthe borrower, the farmer or business man, but the so-called "independent" banker who wants to monopolize local credits. The high interest rates that this entails for the farmer and business man are hardly consonant with their interests.

Senator Glass, who has had more legislative experience with banking problems than any man in public life in our times, identified the real opposition to branch banking as coming exclusively from lenders, not from business men and borrowers, when speaking in the Senate some years ago, he said:

> "But, in justice to my general advocacy of well-guarded branch banking, I have repeatedly challenged anybody to show that there has ever appeared before the Committee on Banking and Currency of either House of Congress in opposition to branch banking anybody who wanted to borrow money or wanted credit. The only opposition to branch banking that has ever come to Washington has been from banks which want to monopolize the credits of their own community. . . . . . .
>
> "The plea against branch banking comes from bankers and not from people who transact business, not from people who want to borrow money, not from people who want to buy credit. It comes from bankers who want to exclude from their peculiar communities anybody else who wants to sell credit."

Many disinterested authorities have pointed to the fact that the United States lags far behind all other important countries in developing a well-regulated branch banking system. As Dr. Ray B. Westerfield, Professor of Political Economy at Yale, author of various textbooks on banking, has put it:

> "In England, France, Germany, Canada, Italy, Holland, Sweden and every other important commercial country of the world, a system of nation-wide branch banking exists. . . . A similar evolution in the United States has been prevented by the false doctrine of 'service to the community,' by the popular local jealousy and exaggerated apprehension of distant control by Wall Street and Washington, and by the prohibitive legislation in which these ideas have expressed themselves. Our country 'is still using localized banking of the stage-coach pioneer days'."

You ascribe to me advocacy of Federal charters for all banks, which would entail abolishing all State chartering and supervision. The truth of the matter is that I have never advocated that drastic a change, recognizing how beset it is with political controversy and hoping that a sufficient degree of unified action and policy could be accomplished, short of what logically is a more rational readjustment to modern conditions.

In the earlier days of the Republic when State banks were empowered to issue currency, there was a reason for State chartering and supervisory powers that ceased to exist when State bank notes were taxed out of existence. In the light of the clearly recognized sovereignty of the Federal Government over the issuance of currency, the logic of the case calls equally for ending State authority to charter banks which, in turn, while they no longer issue currency, can create bank credit which has so largely supplanted currency as the country's chief medium of exchange.

> "Indeed," -- to quote Dr. Westerfield on this point -- "it has been seriously argued that the Constitution not merely permits but requires that the power of the states to charter commercial banks be abolished and control of commercial banking be exercised by the Federal Government alone, because the Constitution expressly gives Congress control of the monetary system and forbids interference with it by the states, and commercial bank deposits are the principal element of the monetary system."

There would be nothing new or novel about advocacy of abolishing the State banks altogether. No less an authority than Senator Sherman, of Ohio, a leading figure in establishing the National Banking System declared nearly eighty years ago that his study and experience as a lawyer had convinced him that "the whole system of state banks, however carefully guarded, was both unconstitutional and inexpedient and that it ought to be overthrown".

Daniel Webster, speaking in the Senate on the subject of State bank circulation, said,

> "I confess, Mr. President, that the more I reflect upon this subject, the more clearly does my mind approach the conclusion that the creation of state banks, for the purpose and with the power of circulating paper, is not consistent with the grants and prohibitions of the Constitution."

Indeed, you can go back to as stalwart a champion of State rights as Thomas Jefferson for support of the contention that the States should not retain the right to charter banks, for he wrote on September 10, 1814, "The state legislatures should be immediately urged to relinquish the right of establishing banks of discount."

I need not recall to your mind the long list of experienced public men who have recognized that the dual banking system which you favor constantly makes for what has been so aptly termed a competition in laxity. Mr. Eugene Meyer, former Governor of this Board, in a letter to the Senate Committee on Banking and Currency on March 29, 1932, expressed the conviction "that the establishment of a unified system of banking under national supervision is essential to fundamental banking reform".

And Senator Glass declared, in the course of hearings before the Senate Banking and Currency Committee on the same date, "I think the curse of the banking business of this country is the dual system." And when Mr. Meyer remarked at the same hearing that "competition between the State and National banking systems has resulted in weakening both steadily", Senator Glass added, "I say so; yes. . ."

You state that you oppose both holding company banking and branch banking. The bank holding company device was developed in order to meet a need that should have been met by trade area branch banking, for which it is a poor substitute. It is my view that further growth of bank holding companies should be prohibited by statute and that additional statutory powers should be given to the Reserve Board to deal adequately with existing bank holding companies. But the problems which the bank holding company device sought to meet cannot be satisfactorily met until a well-regulated branch banking system is developed on a trade area basis.

Your letter also states that I do not appear to be convinced of the soundness of the "principles" of deposit insurance. The fact of the matter is that at a time when many of my banking contemporaries were inclined to look upon deposit insurance as a scheme to make good banking pay for the mistakes of bad banking, I strongly advocated the "principles" of deposit insurance. I testified in favor of it when I appeared before a Senate committee in February of 1933, and I went even further in suggesting that, as a recovery step, it would be a relatively trifling price to pay if the Government were to pay to depositors the net amount of the deposits they had lost in banks that had already failed. Similarly, I felt that deposit insurance not only would help to bring back into reopened banks money that had been hoarded but that in the future it would tend to minimize runs on banks and a recurrence of widespread hoarding. Moreover, I felt then, as I do now, that as long as we continued to have the dual system of banks and the vulnerability inherent in that set-up, deposit insurance was essential. But it is by no means a solution of our basic banking troubles. It will be highly unfortunate if it is used to obscure the need for and to postpone still further fundamental banking reforms. The necessity for it will disappear once the banking system is unified, with provision for well-regulated branch banking and a more stable operation of our economic system. It does not exist in other countries.

What the New York Times, as late as July 23, 1936, editorially called "an obvious and pressing need" for fundamental banking reform continues to exist. "If the experience of the depression years showed anything," this editorial continued, "it showed the glaring weaknesses inherent in a banking system which is conducted under no less than fifty different sets of Federal and local regulations, with many communities denied by law the services of banking institutions equipped with adequate financial resources. The remedies for these weaknesses are unified regulation obtained through membership of all banks in the Federal Reserve System and an extension of the practice of sound branch banking." Many other disinterested observers and authorities, with no personal axes to grind, have come to the same conclusion, which is so sharply at variance with your own views.

I do not believe, as you do, that "deposit insurance, coupled with effective bank supervision and an adequate rediscount system, is an effective and workable alternative to the extensive system of large branch banks". As I have emphasized, deposit insurance, no matter how effective bank supervision may be, cannot protect the banking system from widespread economic storms.

As for a rediscount system, that again is but an incidental part of the machinery for carrying out national policy. For more than a decade the rediscount system has had no material application whatever. During the depression years, and now in wartime, the banks have had no need for discount for they have had abundant funds. That has no bearing on the question. To my mind, the alternative is not, as you put it, independent, insured banks versus an extensive system of large branch banks. The alternatives are a hodge-podge of unrelated, uncoordinated banking authorities and operations, such as we still have, and a simplified banking structure with some unity of purpose, principle and policy.

I am quite as conscious, I think, as you are, of the dangers in "bureaucracy" and in "concentration" of power "in the hands of any few men" and I am equally eager to prevent any such needless development. The alternatives that I have advocated for the present "crazy quilt" banking structure call for no such concentration. Nor, in advocating branch banking, have I ever suggested that we should have "large branch banks," as you put it, if by that you mean great concentrations of control or power.

While, as I have said, I am not sanguine about our seeing eye to eye on these highly controversial matters, nevertheless I feel as you do that we are by no means as far apart as might appear from this correspondence. You are fully aware of the fact that democratic processes constantly require compromises between conflicting viewpoints and, in the spirit in which you and I have always been able to work, I feel that we could usefully discuss these common problems further and doubtless agree upon various ways in which the present organization and operation of the banking mechanism could be improved. When that time comes I shall welcome it.

As one who has spent his adult life as a banker, let me say again that I am eager to preserve private banking in this country. It cannot be preserved, it cannot fulfill its role of best serving the country, by clinging to concepts or practices that have failed to stand the test of practical experience.

Sincerely yours,

(Signed) M. S. Eccles.

M. S. Eccles,
Chairman.

Honorable Leo T. Crowley, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C.

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Federal Deposit Insurance Corporation
Washington

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Office of the Chairman

August 17, 1943

My dear Marriner:

I have glanced hastily at your letter of August 4 and am happy to learn that you approve of deposit insurance. I appreciate your correcting my impression on this matter.

I have been unable to read your letter with the care which it deserves but shall do so at the first opportunity. When affairs of the moment quiet down somewhat we may have a chance to thrash some of these questions out again.

Your best wishes are very much appreciated.

Sincerely yours,

(Signed) Leo T. Crowley.

Leo T. Crowley,
Chairman.

Honorable Marriner S. Eccles, Chairman
Board of Governors of the Federal Reserve System
Washington 25, D. C.

August 27, 1943.

Mr. Paul R. Porter,
War Production Board,
3747 Social Security Building,
Washington, D. C.

Dear Paul:

In accordance with my agreement yesterday, I am enclosing a copy of my letter to Mr. Crowley of August 4 in reply to his letter to me of May 18, a copy of the latter having been sent to Mr. Vinson by Mr. Crowley.

I am also enclosing copy of a report from Mr. Stark to Ben Cohen and of a memorandum from Mr. Ramsay Wood of the Federal Reserve staff to Mr. Stark covering the war housing program.

Sincerely yours,

Enclosures 3

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