

WALTER KUTZLEB

NEW YORK

19, Rector Street (Room 807)

June 17, 1938.

Mr Thomas

Hon. Warriner S. Eccles, Chairman,
Federal Reserve Board,
Washington, D. C.

My dear Mr. Eccles:-

I have read with deep interest your views on banking policies as disclosed in your correspondence with Senator Vandenberg.

I wonder whether it might be advisable to consider at this time the development of commercial acceptances in our country. In any event, such development would supply two-name paper, aside from endorsements, and would liberate hundreds of millions of dollars now frozen in so-called open accounts. Based on the Trust-Receipt principle, a commercial acceptance should constitute one of the best and safest instruments of commerce, and should assist many small industrial and commercial concerns in financing their current needs. European Central Banks have welcomed such paper in their own countries as basis for currency, and there has usually attached a certain sanctity to acceptances which has added to their attractiveness as short-time investments.

Currency, as you state, is not necessarily wealth but I am inclined to believe acceptances would really make a contribution to a more active turn-over, and once properly introduced, might be entitled to better recognition in all directions of trade and banking. And it is turn-over that leads to more employment, and consequently greater prosperity.

I am aware of antipathy in certain quarters to the development of the use of acceptances but I truly believe the matter is worthy of more study.

With assurances of my esteem, believe me,

Very sincerely yours,

Walter Kutzleb

June 22, 1938

Mr. Walter Kutzleb
19 Rector Street (Room 807)
New York City, N. Y.

Dear Mr. Kutzleb:

I wish to acknowledge your letter of June 17 with reference to the development of trade acceptances in this country.

As you know, the numerous attempts in the past to promote a wider use of the trade acceptance have been unsuccessful. The Federal Reserve banks are authorized to rediscount or purchase short-term trade acceptances drawn for commercial and agricultural purposes. These acceptances are also eligible as collateral for the issuance of Federal Reserve notes. The chief reason why the trade acceptance has not been popular in this country, in spite of the increased liquidity introduced by the Federal Reserve Act, is because American business has preferred to use the traditional methods of financing, namely, the open-book account and the cash discount system. Moreover, there has been a steady decline in the volume of short-term commercial loans since the war.

At the present time I believe an attempt to increase the use of trade acceptances would meet with the same difficulties encountered in the past. Commercial borrowers who might use this type of paper can readily obtain accommodations at extremely low rates either from commercial banks upon their own promissory notes or through access to the commercial paper or bankers' acceptance markets.

In closing, I wish to thank you for your interest in my views on monetary and banking policies and for taking the trouble to send me your suggestions.

Very truly yours,

M. S. Eccles,
Chairman.

Received in
Chairman's Office
JUN 18 1938
Board of Governors
of the
Federal Reserve System

HE/fsc