

Office Correspondence

Date December 3, 1947.

To Chairman Eccles
From Mr. Young

Subject: Testimony of Federal Advisory
Council members before the
Senate Committee on Banking
and Currency.

From the bankers' point of view, yesterday's hearing was in every respect a success. The reception to witnesses was friendly, encouraging, and considerate; no witness got rough treatment. The opinions expressed seemed to make an impression. The line-up of witnesses was as effective as one could ask for the purposes. Fleming illustrated the sophisticated metropolitan banker; Williams typified the sterling virtue, strong character businessman's banker; McCoy represented the homespun, western type of banker.

Fleming's testimony took up the morning session. He read the Council's statement and from that point proceeded with off-the-cuff comment, which mainly reiterated the Council's ideas. The Board's plan was described as impractical, socialistic, and unnecessary considering existing powers, and this was done in as many different ways as Mr. Fleming's adequate facility at extemporaneous speaking and time for testimony permitted. Also emphasized in several ways was the idea that the Board's plan would be seriously detrimental to the long-term Government bond market. A novel notion advanced and repeated was that the Board's plan, by restricting ability of banks to make productive loans, might actually prove to be inflationary by accentuating scarcity. Not novel, however, was the idea that bankers are cautious, conservative, trustee-minded men that make only productive loans.

Informal supervisory efforts to keep bankers in line in following prudent policies had Mr. Fleming's approval, and more efforts ought to be made along this line. An ABA committee is currently working on a statement to reinforce the recent joint statement by the Federal supervisory agencies.

Also endorsed was Secretary Snyder's savings bond program. References to Mr. Snyder were noticeably deferential and respectful. Eccles is a fine fellow, but of course he is always off on these theories and devices for controlling the economy from Washington.

Reference was made to the 1945 Annual Report and to the fact that suggestions at that time were for the record. Senator Tobey caught the implication and asked if Mr. Fleming thought that in this instance Mr. Eccles was just speaking for the record, so that two or three years from now he could say "I told you so." Fleming indicated that he thought there might be something in Senator Tobey's suggestion and the Senator nodded his head affirmatively.

STRICTLY CONFIDENTIAL

To: Chairman Eccles

- 2 -

December 3, 1947.

Fleming made the point early that the Council's views were unanimous. He reemphasized it with such frequency that Senator Tobey was prompted to ask whether the Board's proposal represented unanimous opinion. Fleming's answer was to put the matter in terms of formalities and that he didn't know really. It left the impression that perhaps it wasn't so, or that Mr. Eccles had the Board under his fingers and the opinions of the rest didn't much matter. His answer also intimated that perhaps there was System opinion that differed with that of the Board. All of this was accomplished by skillful and subtle indirection.

Some questioning was directed at consumer instalment credit, and Mr. Fleming's strategy was to emphasize its unimportance. in the total credit situation

* * * * *

The afternoon session from 2:30 to nearly 4:00 p.m. was divided about equally between Williams and McCoy. There were few high moments in the testimony and much time was wasted over irrelevant questions and discussion among Committee members.

Williams merely endorsed in all respects the testimony of Fleming. He did emphasize the importance of fiscal policy and was apprehensive about the Board's plan and its possible effects on the long-term market. Put in a corner by some questions, he finally said you could stop inflation and fast by removing all support from the Government market. Unfortunately, no one was fast enough on the follow-up and the further discussion came to naught. Senator Robertson almost got him tied up in some rudiments of banking and monetary principles but did not press hard enough to make it embarrassing or to impair the effectiveness of his testimony. He offered a few comments regarding the impracticality of restoring instalment credit regulation.

McCoy's testimony was largely more of the same. He got along well with the Committee by using the technique "Now, let me ask you a question."

McCoy's principal points were: you can't stop inflation; "nature has to take its course;" "the law of supply and demand can't be repealed;" and the like. Other points included: Eccles is just a theoretical fellow, he doesn't any longer understand bankers' problems; no depression is coming, people aren't in debt; stop lending for productive purposes, however, and you will get a depression; the Board is not really in earnest about its plan.

STRICTLY CONFIDENTIAL

To: Chairman Eccles

- 3 -

December 3, 1947

On consumer instalment credit, McCoy's case was: the item is "peanuts"; you can police the banks under the regulation but not the many thousands; ^{of retailers} demand for consumer's durables is mainly demand; you can't encourage housing via credit and deny credit facilities to homeowners to equip houses and have transportation to them.

* * * * *

The strategy of the testimony, in retrospect, seems to me about as follows:

- (1) Stress the Council's view that blame for inflation is elsewhere than on banking.
- (2) Leave serious doubts in the Committee's mind as to need for the Board's plan and the Board's good faith in proposing it.
- (3) Leave impression with the Committee that the Board's plan is just another Eccles' gadget.
- (4) Emphasize that Council's views are unanimous but leave doubts that the Board is unanimous, at least that System opinion is united with that of the Board.
- (5) Intimate that the System is doing less than its duty by the existing inflationary situation by not using present powers to the fullest extent.

Senator Tobey asked several times how are we (the Committee) to pass judgment on such a sharp difference of views by equally responsible groups of men. An in-between-the-lines interpretation might be that the Committee would like to hear testimony from other members of the Board as well as Mr. Eccles and also from some of the Presidents.

* * * * *

The foregoing report is a sketchy, impressionistic account and perhaps does less than justice to the proceedings. Some points could be elaborated more than has been done here with possibly different effect.

