

# THE CITIZENS NATIONAL BANK



CAPITAL AND SURPLUS \$500,000.00

ORANGE, VA.

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VICE-PRESIDENT

December 2, 1947

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

Dear Mr. Eccles:

I have read with considerable care and interest your testimony given before the members of the Senate Committee on the Economic Report.

I think the business people of the country are becoming quite exercised over the proposals for the curtailment of credit. As you well know, most businesses are geared to receiving bank credit at intervals. I have talked with several of the most successful and prominent business people in this section since receiving your statement, and to a man they are very much concerned about the fact that the Federal Reserve Board has thought of doing anything as drastic as what is contained in your statement; that is, increasing the reserve on demand deposits by 25% and the reserve on time deposits by 10%, the effect of which will be to prevent practically all of the lending power of the banks from functioning.

It would seem that the Board seeks to convert the commercial banks into depositories; and what effect it would have on the business interests of the country is of course problematical, as nobody knows how far-reaching the effect may be. Most business men choose, as between inflation, and deflation, the former in which to do business. When the business world wakes up to what is really proposed and the extent of it, there will naturally be a tremendous revolt against it, and whether a few people desire to take the step which is obviously so unpopular with the rank and file of business people in the country who pay the taxes to support the Government is questionable.

When a boulder starts down the mountain-side, you can't stop it until it reaches the bottom; and it is much the same way with deflation. When you once start it you can't stop it until it scrapes the bottom.

Another angle to this situation is that the bankers, who have usually been the goat in financial depressions, are not going to take this sitting down. They are not going to have the buck passed to them as having caused a deflation, when as a matter of fact it will be caused by other factors.

Orange, Virginia  
December 2, 1947

Mr. Marriner S. Eccles - #2

In the late 20s, in the Hoover Administration, Congress passed the Smoot-Hawley Tariff Act, which had the effect of building a tariff wall around the country and foreign countries were unable to sell their goods here due to it. They retaliated by refusing to buy from us. As you well know, the effect of this was to practically kill our export trade, and from the passage of that act deflation started in and it was not stopped until the Second World War got under way.

You will recall that in the panic of the early 30s, the banks were largely blamed for the depression, and by the people who had really caused it through the enactment of unfortunate legislation. The politicians took the view that they could not accept responsibility for what they had done, that the bankers were not in a position to defend themselves, and by vicious propoganda they passed out to the country that poor banking was the cause of it. I predict that the bankers this time will not take it lying down and are in a better position to defend themselves than they were then, and by newspaper, magazine, radio and other methods they will seek to place the blame just where it lies, with the politicians.

With much respect, I am

Very truly yours,

  
President.

RCS:khp

December 12, 1947.

Mr. R. C. Slaughter, President,  
The Citizens National Bank,  
Orange, Virginia.

Dear Mr. Slaughter:

Because of the necessity for almost daily appearances at various Congressional hearings, I regret that I have not been able to acknowledge more promptly the receipt of your letter of December 2, 1947, containing your very interesting commentary upon the reserve proposal involved in my testimony before the members of the Senate Committee on the Economic Report. The problem of course has many sides and, speaking as an experienced banker, I recognize the natural reaction of bankers to any additional restraints upon their freedom of action. However, my correspondence and conversations with many of them have made it clear to me that they do not all think alike on this question and since, in another appearance before the Joint Committee on the Economic Report on Wednesday, December 10, 1947, I had occasion to discuss in more detail the arguments that have been presented, I am enclosing a copy. In this connection I should like to call your attention particularly to the fact pointed out on page 2 of this enclosure that the Federal Advisory Council joined with the Presidents of the Federal Reserve Banks and the Board in December 1940 in submitting a much more restrictive reserve proposal than the one now under consideration.

May I say that I am glad to learn that you as well as many other bankers are taking the occasion to study this problem. I feel that this is an exceedingly encouraging development no matter what the outcome of the particular proposal may be.

Very sincerely yours,

M. S. Eccles,  
Chairman.

Enclosure

ET:am