1718 Whitchell Ave.,
Decatur, Illinois

12/15/47

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

Dear Sir:

If my memory is correct, the last time an increase was made in the member bank's reserve requirements in the Federal Reserve, after about six or eight months there was such a contraction of credit that we were thrown into a business tailspin and it will happen again just as sure as you put the plan into practice, if passed by Congress.

Being in your position you only see statistics and figures that appear possibly alarming, but to look behind those statistics and find out the realness of them is another thing. Does the government need support for it's bonds and must interest rates be increased? How much better off the government will be if business continues at the present level and the huge taxes continue to roll in than it will be by a contraction of business and higher interest rates, you know better than I know.

With more natural wealth in our country now, it is only natural that all statistical figures should be greater and when we are speaking in terms of billions and considering an increase of over 80% in comparison with 1939 then the figures become alarming, but are they?

There are many, many small businesses that are not in a good financial position today, and if they are no longer permitted to borrow money from the banks they will be forced to close, yet some of them will survive if permitted to work out their problems, and the number one problem for all business today is the rising costs of doing business. Wait another year or two and natural causes, that is, supply and demand will have worked to clear up the causes of anxiety so predominent today, in the form of an overexpansion of credit in certain lines, then the decline will be slow, no protracted effects will be felt and no one will give a great concern, but if the government sets off a decline by manipulations of the Federal Reserve then there will be a great many unhappy people, who vote, and won't forget.

Being no banker, nor business man, nor politician either, my only interest in writing you is to let you know that this boom will wear off gradually without any outside controls, and natural wearing is always much better for the greater portion of our population.

Yours truly,

Lyman J. Davis, Jr.

December 15, 1947.

Mr. Lyman J. Davis, Jr.,
1718 Whitchell Avenue,
Decatur, Illinois.

Dear Mr. Davis:

I read with interest your undated letter which I infer relates to the Board's special reserve proposal. It is not clear whether you have seen the statements that I made before the Joint Committee on the Economic Report in which I set forth the background of this proposal. Therefore I am enclosing copies of my statements of November 25 and December 10, 1947. I would like particularly to call your attention to the fact referred to on page 2 of my statement of December 10 that the Federal Advisory Council (composed of twelve leading bankers from all banks of the United States) in December 1940 joined with the presidents of the twelve Federal Reserve Banks and the Board of Governors in a recommendation to the Congress of a plan for raising reserve requirements which would have been more onerous and drastic than the one currently under consideration.

Whatever may be the final decision as to the kind of program that will best meet the present situation, I believe that there is a growing and healthy appreciation of the necessity for a constructive viewpoint rather than a wholly passive attitude. The instinctive preference for both waiting "another year or two" and relying upon "natural causes" has contributed to the severity of booms and busts and I am sure that many people feel that we cannot safely refrain from doing something about the situation.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures

CM:am