December 18, 1947.

Mr. T. W. Leggett,
Vice Chairman, Executive Committee,
National Association of Supervisors
of State Banks,
State Capitol Building,
Little Rock, Arkansas.

Dear Mr. Leggett:

Thank you for sending me the copy of your letter of December 15 to Mr. Hospelhorn. I read it with an increasing sense of gratification and encouragement.

I recognize, as you do, the implications of any proposal to require State banks to comply with Federal regulations and we both know that it is always a matter of degree and purpose. The FDIC certainly has not undermined the dual banking system, and I think you know that there is no such intent so far as this temporary special reserve proposal is concerned. It merely recognizes the hard fact that to be effective any reserve requirements would have to be applicable to all commercial banks. That was also recognized in the Special Report which the System sent to Congress at the end of 1940 in which the Federal Advisory Council, the presidents of the Reserve Banks, and the Board unanimously joined.

I am so favorably impressed with your objective approach that I am taking the liberty of circulating your letter among the Board members.

Let me take this occasion to send you all good wishes of the Holiday Season.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

ET:b

For Circulation
First to Mr. Eccles
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Vardaman
Mr. Clayton
Mr. Thurston
Mr. Morrill
Mr. Carpenter
~~Mr. Hammond~~
Mr. Sherman
Mr.
Mr.
Mr.
Please note, mark and return to Mr. Brennan.

Nat. Ass'n of Supervisors of State Bks
State Capitol Bldg
Little Rock, Ark.

Copy

December 15, 1947

Mr. John D. Hospelhorn, Chairman
Executive Committee
National Association of Supervisors of State Banks
Baltimore, Maryland

Dear John:

I have your letter of December 10 enclosing a detailed copy of the statement recently made by Chairman Eccles before the Joint Committee on the economic report. Since that time I am in receipt of two bulletins from the Federal Reserve Board, with an explanatory sheet dictated by Mr. Eccles under date of December 10, as a result of his conference with Secretary Snyder.

I am sure I can go along in full accord with Mr. Eccles, except the reserve requirement which he proposes, and I am a little inclined to think he is right even in this. However, I can understand why the bankers generally would not be favorable to such a reserve requirement. I believe the reserve requirement proposed might be a good thing, but I would hate to see the Federal Reserve Board have jurisdiction over the non-member banks in this respect for the only reason of setting a precedent.

I do not believe the the restriction of bank credit alone a cure for the inflation which now exists. I believe it will take an organized effort on all fronts, and as has been stated, some of the elements necessary to give attention to are as follows:

> The increase of productivity both at home and abroad;
> Suspension of future demands for wage increases, especially those of organized labor, where the increases have been greater;
> A fiscal policy to produce the largest possible surplus, to be used to pay off bank-held debt and thus reduce the money supply.

Continuation and expansion of the Treasury Savings Bond campaign, with adequate financial support by Congress.

If the administration will get serious about this inflation and give attention to the above related facts, I would be willing to go along and support Mr. Eccles' plan of increased bank reserves.

One thing I believe that we, as bank supervisors, should always bear in mind, is the safety of the banking system. The safety of bank assets is more important than encouraging banks to tolerate too great expansion in credit for the sake of making more money.

I believe that most of the banks are doing a good job in selecting credit risks, but we do have several banks in my state which I imagine could represent a very good sampling of the country in which the banks are too ambitious to make loans on high property values. The trend is definitely toward a wide expansion in bank credit. I believe we should think something of stopping it before it gets too far.

I am impressed with what Mr. Eccles said in one paragraph of his statement, in which he mentioned the fact that the Federal Reserve Supervisory Council did not agree with his proposal. The paragraph is as follows:

> "I am sure the Council's views reflect the opinion of a great many bankers, who are entirely sincere in the belief that the loans they are extending are safe, deserving risks necessary to sustain full production. That conviction, honestly held, is unhappily characteristic of boom psychology. In 1920, or in the latter part of that decade, bankers would have made the same replies that they give today if asked whether they thought the loans they were making should not be made. A short time later they were trying desperately to liquidate some of these loans. The individual banker is judging by standards applying to the individual borrower and risk."

If it is necessary for a conference in regard to ways and means of combatting the inflationary trend in which we are encompassed, or in the dealing with other matters, I will make it a point to try and attend the conference when you see fit to call it.

Very truly yours,

Tom W Leggett

T. W. Leggett,
Vice Chairman, Executive Committee

twl/aa