



# THE MIAMI DEPOSIT BANK

CAPITAL \$ 50,000.00

SURPLUS \$ 100,000.00

YELLOW SPRINGS, OHIO

December 29, 1949

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

Dear Mr. Eccles:

I have received your letter and statement before the Subcommittee on Monetary Credit and Fiscal Policies. Most of your comments are logical and fair. However, I do note on page 3 that you make certain comments regarding "obstructionist" bankers in this country. I personally know a lot of these "obstructionist" bankers and while there are some of us in this profession who may seem unduly conservative at times, I do not believe that the net effect of the so-called "obstructionist" banker on our democracy is as bad as you might infer.

You emphasize the two major points of contention between the non-member bank group and the Federal Reserve advocates of more control, but you fail to analyze the reasons behind this basic disagreement. You also state that you really are basically against government interference or participation in private banking.

From long observation of your activities, and work on the Federal Reserve Board, much of which I admire, I am forced to the conclusion that you have not yet given sufficient sympathy to the motives and reasoning behind the action of many of the bankers you criticize. You apparently feel that the Federal Reserve Board should have complete control of reserves of state non-members and point out that logically this is the only thing that makes sense. You further indicate that any banker who resists this approach is an obstructionist just as other bankers in the past who have presumably resisted the growth of government power.

If you are truly interested in the welfare of this country, you surely cannot ignore the fact that of all the socialistic trends in our government today, one of the most dangerous potentials is in the trend toward government control of banking. You will surely agree that we bankers must be much more careful about giving up our states' rights than is the case with many other activities which the Federal Government has taken over. While perhaps we can agree with you that more positive Federal Reserve controls might be desirable at times to control inflationary credit tendencies, yet perhaps this would lead to too much

Mr. M. S. Eccles

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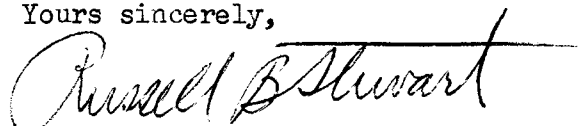
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control at a time when it might be unwise or destructive instead of constructive. We also cannot ignore the possibility of this power being taken advantage of by politicians or their advisors of the Fascist or Communist type who might gain control of the Board. The choice by many of us State bankers in favor of the status quo on reserves, is the one of choosing the lesser evil for continual protection of our democracy. This lack of complete control of reserves by the Federal Reserve Board (even though very small) is admittedly a negative method of protection, but apparently is the only method now possible of retaining the financial checks and balances necessary for safety. This principal of divided power has been the heart and soul of our government since the days of Thomas Jefferson. When the Federal Government can no longer work cooperatively with the State Government and instead wants to absorb all financial control, then our days as a democracy are numbered.

I am afraid that you have chosen to put your reliance for our future in the hands of strong government control rather than to find some other answer which would keep the private banking system as a constant safety factor for the people of the country.

You are in a position to exercise a great deal of influence. I appeal to you as a freedom loving person and as a banker to join the ranks of those of us who recognize our inability to solve soon all the financial problems incident to meeting the demands of a rapidly changing world, but who at the same time must preserve and widen the channel of inherent truth and courage which is the only protection we have today from the seductive and demoralizing advances of the Welfare State.

Yours sincerely,

  
President

rbs/mkd

January 5, 1950.

Mr. Russell B. Stewart, President,  
The Miami Deposit Bank,  
Yellow Springs, Ohio.

Dear Mr. Stewart:

In the absence from the city of Governor Eccles, I am taking the liberty of acknowledging receipt of your letter of December 29 commenting upon his views as expressed in the hearings of the Douglas Subcommittee on Monetary, Credit and Fiscal Policies.

I think that I might be able in my own way to convey to you some thoughts that would enable you to understand better the philosophy which Governor Eccles has consistently followed throughout his governmental service, because he is usually disinclined to stress his personal background and interests. His business life for many years prior to his entrance into public service in 1934 was spent directly and actively as the head of extensive banking and other business activities in which other members of his family are also interested. These interests include what is perhaps the largest and most aggressive banking institution in the mountain States. At one time he served as President of the Utah State Bankers Association. He could not have been as successful as he has been unless he were vitally concerned with the advancement of the private enterprise system. He has been opposed to the expansion of governmental activities in the banking field which have tended to divert customary banking activities to governmentally controlled and operated institutions and has not hesitated to make his views known publicly. His concern with the preservation of private enterprise has been evidenced throughout his public life in a manner which has attracted much attention and sometimes more criticism to him than to most other public figures because he has had the courage to advance his views forcibly and logically without regard to political considerations. It is true that he has had little patience

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with the "obstructionist" activities of many bankers and others. He has believed that however sincere they might be they have not promoted the best interests of the private banking system. He believes that the preservation of that system is dependent upon constructive policies and legislation. His philosophy is and has been altogether contrary to the socialistic point of view which you seem to attribute to him. In his opinion socialistic trends have been accelerated, not deterred, by obstructionist tactics.

There is no justification in his philosophy for distinguishing between national and State banks or between member and nonmember banks when national monetary and credit policy is at stake. As he said in one of his statements to the Douglas Subcommittee, the outcry from various sources, to the effect that proposals which he has advocated would destroy the so-called dual banking system, has been simply a "red herring". The interests of all commercial banks and their public relations are and should be indivisible. They should stand alike in governmental policy and legal requirements. There should be no discrimination or competitive disadvantage for member banks.

I need not go further into this question because it is fully explored, not only in the testimony of Governor Eccles but also in the testimony of his successor, Chairman McCabe who, coming from the field of private business enterprise in which he retains a substantial interest, supports the same general objectives and point of view as Governor Eccles with respect to the importance of preserving the private enterprise system. These basic views are shared by the Presidents of the Federal Reserve Banks, some of whom have testified to this effect before various Congressional committees. As you know, these Presidents are elected by the directors of the Federal Reserve Banks, two-thirds of whom are elected by member banks. The establishment and operation of the Federal Reserve System, which includes in its membership 85 per cent of the banking resources of the country, has certainly not worked against the interests of private banking enterprise or of the chartering powers of the States. On the contrary the Federal Reserve System has served to strengthen and preserve the banking system as a whole. Never in its history has commercial banking been so sound or so prosperous as in recent years.

Amplifying some remarks of Governor Eccles before the Douglas Subcommittee, it might be pointed out that he expects to

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Mr. Russell B. Stewart, President

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return to active participation in private business and banking and he would not consciously do anything to impair his ability to continue successfully in that field. As he has said, his motives are frankly selfish and based on his desire to do all he can to preserve the stake he and his family have in private enterprise.

With best wishes, I am

Sincerely yours,



Chester Morrill,  
Special Adviser.

CM:am

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Miss Eglant

Mr. Nuttall

I think he's hopeless.  
in more way than

one -  
I'd file it!



Mr. Thurston  
reply, I can think of a  
"already in the hands of  
political leaders" but is  
it worth while?  
Cm



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**THE MIAMI DEPOSIT BANK**  
CAPITAL \$ 50,000.00 SURPLUS \$ 100,000.00

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YELLOW SPRINGS, OHIO

January 9, 1950

Mr. Chester Morrill, Special Adviser  
Board of Governors of the Federal Reserve System  
Washington 25, D. C.

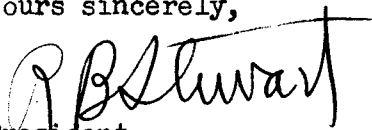
Dear Mr. Morrill:

Thank you for your letter of January 5 in answer to my letter to Governor Eccles. The analysis you gave of Governor Eccles' philosophy is very accurate, but I am afraid that you again do not face the issue. You merely echo his opinion that should complete control be given the Federal Reserve, it would be a fine thing for the country.

In my letter of December 29, I pointed out what I thought was a crucial reason why this might be dangerous to banking as a whole. I am afraid just calling it "red herring" does not answer the question.

It is a fine thing to be a confirmed optimist and have complete faith in the judgment and actions of future political leaders without any brakes on them, but I am sure that there is nothing in history to justify this brand of optimism in the subject we are discussing. Governor Eccles and others with this philosophy are certainly failing their responsibility to the country in refusing to recognize this fact. Why doesn't he or Mr. McCabe bring this out? Are they afraid to say publicly that some people can't be trusted with this power?

Yours sincerely,

  
President

rbs/mkd