

FIRST NATIONAL BANK

CAPITAL \$12,000,000



SURPLUS \$2,500,000

WALTER W. SMITH,
PRESIDENT

IN ST. LOUIS, MO.

February 27, 1935.

Hon. M. S. Eccles, Governor,
Federal Reserve Board,
Washington - D. C.

Dear Marriner:-

Receipt is acknowledged of your favor of the 21st inst. enclosing copy of the address which you made at the Ohio Bankers' Association Convention at Columbus, Ohio, on February 12th.

Frankly, I have been very favorably impressed with the data which you presented and feel that, on the whole, it brings forth many justifiable reasons for the new bank legislation.

However, I have not been converted to some of your basic theories as I feel they are debatable. The idea that the increase in the money supply makes business, and vice versa, that tight money will restrict it, is entirely plausible, but we have now had approximately twenty-four months of a plentiful supply of credit and money, at probably the lowest rates in our history, with practically no stimulation of business; in fact, commercial loans are at their lowest ebb at this time, and also throughout most of 1928 and during the first half of 1929 when we had a stringency of funds and high interest rates, business volume was at its greatest peak.

I am thoroughly satisfied in my own mind that you are taking your responsibilities as Governor of the Federal Reserve Board, in the most wholesome manner, and approach them in the most serious way in an endeavor to have the Federal Reserve Act changed to the point that the Federal Reserve Board will have not only the responsibility, but the necessary authority to cope with our various financial problems over a major period of time.

I do feel, however, that you must agree with me that provisions must be made that this vast power, which can so easily

Hon. M. S. Eccles #2.

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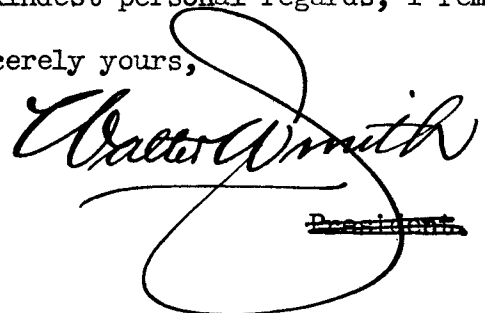
wreck our country, should be, as far as possible, divorced from political affiliations. Without any bias, it would be almost impossible to expect that if a substantial boom began in the year 1936, that a Board politically controlled would have the independence and moral courage to "put on the brakes" in the manner which, from a technical standpoint, we feel would be to the best interests of our country.

I realize that you have been in the closest possible contact with Government during the past two years, but offer the suggestion, with every decent apology, that maybe your tenure of office has still not been of sufficient duration to fully judge the conflicting interests which would interfere with the control features of the new banking bill.

I have recently read some very interesting excerpts from an address delivered by Tom M. Steele at the Connecticut Bankers Association Convention, and as I feel they are well worth repeating, particularly the prophetic words of former Secretary David F. Houston who was not only a successful educator and outstanding member of President Wilson's Cabinet, but has, since that time, been the chief executive of one of the largest insurance companies in the world. These comments from Mr. Steele's address, (as per copy attached) make one "stop, look, and listen" when drastic changes are suggested in connection with our most important business structures.

I hope you will accept these suggestions in the spirit in which they are offered, and with kindest personal regards, I remain,

Very sincerely yours,


~~President~~

WWS.P.

(COPY)

"There are some sinister aspects of this attack on the Reserve System. We should remember that the First Bank of the United States lasted for twenty years and was killed through political influences. The Second Bank of the United States lasted for twenty years and was killed through political influences. The Federal Reserve Act was passed at the very end of 1913 and today we have just finished 1934. Ten years ago David F. Houston, who was Secretary of Agriculture in the cabinet of Woodrow Wilson, wrote a book entitled "Eight Years with Wilson's Cabinet." One of his chapters was devoted to the Federal Reserve System, which was one of Wilson's great achievements. In closing his discussion of this topic, Mr. Houston said: "Whether the system will survive is, of course, a question. Whether it can be kept out of politics or politics can be kept out of it remains to be seen. The ignorant and the demagogues we still have with us. The test will come in some period of great stress. If prices should fall and many people, for causes over which banks have no control, should come to grief, there will be those who will ascribe their ills to evil designs of those who direct the system. It will be pictured as the monster 'who plays upon the hopes and fears of the masses of the plain people'. We shall then see what we shall see. We shall see whether we have developed enough popular intelligence and courageous leadership to save us from our folly. We shall see whether we have learned anything from experience." (Vol.1 pps.92-93).

March 8, 1935.

Mr. Walter W. Smith, President,
First National Bank in St. Louis,
St. Louis, Missouri.

Dear Walter:

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It was kind of you to write me about my recent speech before the Ohio Bankers Association and I was pleased to receive your comments regarding my statements.

I recognize that many of the subjects I discussed are highly controversial and there is a great deal of honest difference of opinion upon them. I do not contend that monetary control alone can assure conditions of stable business. While no immediate and precise relationship exists between changes in the supply of money and corresponding movements in the volume of business activity and national income, there is little doubt that changes in the supply of money exert a powerful influence. The Federal Reserve System, through its power to change the volume of member bank reserves and the reserve ratio, influences the supply of bank money. In this connection the time element is important, as inevitably a lag exists between the time monetary action is executed and the time its effect upon business activity is discernible. In any particular situation the Reserve System by appropriate action can make conditions favorable or unfavorable for business borrowing. How important the interest rate is in influencing the decision of the business community to borrow or to refrain from borrowing depends upon many factors, most of which are at least immediately unresponsive to monetary action.

From an administrative standpoint, the present diffusion of responsibility and authority within the Federal Reserve System makes the formulation and execution of monetary policy difficult. Owing to the fact that monetary action so vitally affects the general welfare of the people as a whole, it is essential that control shall be vested in the hands of a responsive body representing the national interest. The proposed bill seeks to remedy the difficulties of the present administrative set up and to place greater responsibility and authority in the Board which is appointed

Mr. Walter W. Smith - 2.

by the President and can be expected to take a national viewpoint on policy matters. This, together with other provisions, it is hoped, will make a position on the Board more attractive to qualified men.

Simply because Board members will continue as at present to be appointed by the President does not itself mean that "political" control in a sinister sense is inevitable. After all, the Federal Reserve System will justify its continuance, not because it is independent of the government, but upon its ability to promote greater economic stability in our present highly unstable system. One provision of the bill has received special attack as an evidence of growing political control, namely the provision that the term of the Governor of the Board shall expire when he is no longer so designated. This provision was included chiefly for the benefit of the Governor and not the President. It may interest you to know that I have recommended to the House Committee that this might be changed to provide that the Governor's term shall be deemed to expire when he is no longer designated as Governor and thereafter chooses to resign his membership on the Board. In any event, the present provision merely recognizes in law the common practice of the Governor to resign whenever a new President is elected. "

With kindest personal regards, I am

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Governor.

NK.
HHE/lea