



THE MERCHANTS NATIONAL BANK

OF BOSTON

28 STATE STREET

BOSTON, MASSACHUSETTS

OFFICE OF THE PRESIDENT

October 21, 1940.

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

Dear Mr. Eccles:

I am much flattered by your thorough reply to my recent letter concerning the government security portfolio of the Federal Reserve System. The explanation which you give me is most interesting and reassuring. At the risk of boring you, may I have just one more word along the lines of my suggestion and as a mild rejoinder to your suggestion that sales are not necessarily in order to prepare the system to support the market. Very likely that may be true under existing circumstances. The psychological effect, however, of reduced holdings of government bonds by the system, would be perhaps greater than you realize. At a time when investors in general must have a feeling of concern about the possible involvement of this country in actual warfare and the consequent drain upon our resources, an attitude of optimism and courage evidenced by sales would not be without its effect. Whether or not it be true, the public believes that a large holding of government bonds in the Federal Reserve Bank portfolio would prove to be an obstacle in the way of future support.

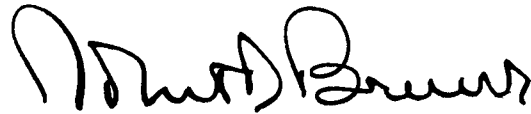
May I take this opportunity to speak of an entirely different matter? In some news service, perhaps three weeks ago, I read that you were considering the advisability of exempting member bank deposits in the Federal Reserve Banks from the Federal Deposit Insurance Tax. This has always seemed to me to be a sound attitude

THE MERCHANTS NATIONAL BANK OF BOSTON

SHEET NO: 2.

for two reasons: first, because deposits in the Federal Reserve Banks cannot be regarded as assets at risk; and second, such a change in the law would result in more excess funds being transferred from member banks to Federal Reserve Banks where it seems to me they belong. The result would inevitably be that inter-bank deposits would be reduced to working balances.

Very truly yours,



RDB:HVE

2.

December 16, 1940

Mr. Robert D. Brewer, President
The Merchants National Bank of Boston
Boston, Massachusetts

Dear Mr. Brewer:

On October 21 you wrote to Mr. Eccles, following some previous correspondence, and in this letter your comments on the advisability of exempting member bank deposits from the F. D. I. C. tax were offered. Inasmuch as the recent speech of Mr. Eccles before the National Industrial Conference Board touches on this problem I am taking the liberty of enclosing a copy for your perusal, thinking that it will be of interest to you.

Sincerely yours,

Lawrence Clayton
Assistant to the Chairman

enclosure

frl