

MERCANTILE-COMMERCE BANK AND TRUST COMPANY

SAINT LOUIS

WOOD NETHERLAND  
VICE PRESIDENT

October 1, 1943

Dear Marriner:

A copy of your address before the National Association of Supervisors of State Banks in Cincinnati on the seventeenth, has been kept on my bedside table for the past week as a result of which I have read it several times most thoughtfully.

It is of utmost importance when one of your brilliance and high station holds to the theory of branch banking across state lines. This, of course, has been long your philosophy, but I have been hopeful that the results of centralized authority in foreign lands had brought about some change of thought of even those of you in high places. Your continued stand on the subject jars but does not change my conviction that the dual banking system is one of the few safeguards we have remaining to protect our American Way of Life. I am not yet ready to swap freedom for efficiency, even if the latter could be proved.

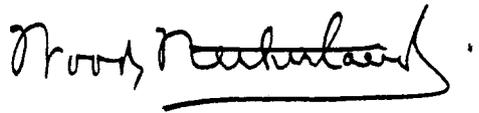
My first impulse was to write you in an argumentative way and yet the subject is a time worn one with you and the arguments which you advance in favor of branch banking across state lines have long since been fully answered from more competent sources. Moreover, as you point out we will likely never succeed in converting partisans on either side and thus arguments between each other will scarcely avail anything.

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As you say "In all probability, we or our successors will still be debating these issues far into the post war world." I sincerely hope this will be true but I am sorry you are not on our side.

Kindest regards.

Sincerely yours

A handwritten signature in cursive script, appearing to read "Harry Belafonte", with a horizontal line drawn underneath the name.

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

October 7, 1943.

Mr. Wood Netherland, Vice President,  
Mercantile-Commerce Bank and Trust  
Company,  
St. Louis, Missouri.

Dear Mr. Netherland:

As Mr. Eccles is on a visit to the  
West and will not return until next week, per-  
mit me to acknowledge your letter of October 1,  
which I know he will be interested to see upon  
his return.

Sincerely yours,

Elliott Thurston,  
Special Assistant  
to the Chairman.

ET:b

October 18, 1943.

Mr. Wood Netherland, Vice President,  
Mercantile-Commerce Bank and  
Trust Company,  
St. Louis, Missouri.

Dear Wood:

Your letter of October 1 was on my desk when I returned from a visit in the West. While I am complimented by your reading all my talk to the State Supervisors, I am distressed to think that you consider the issue one of "freedom" versus "efficiency", or that you feel that the terrible hodge-podge of the present banking system really has anything to do with protecting the American way of life.

So far as the problem of branch banking in crossing State lines is concerned, I of course recognize that this requires a workable, practical solution, but I see no insuperable difficulties, even with the retention of State supervisory authorities. There is no reason that I can think of why they should not and could not collaborate wherever an individual problem arises, as they have in many interstate compacts and authorities affecting shipping and other activities.

With regard to "the results of centralized authority in foreign lands", this reference must be to political conditions and is hardly applicable to the banking set-up, even in the dictatorships. Of course, the banking system has been responsive to the will of dictators as it has been and must be to the will of democracies, but banking has not changed its essential character, even in Germany. It has continued to remain in private hands, but long before the dictators, it had been modernized in all the European countries and in the British Dominions regardless of the form of government. We alone have lagged far behind the procession.

I am quite as much against overcentralization of power as you are, but under a unified system such as I have in mind, with properly regulated trade-area branch banking, it is hardly conceivable that monopolistic conditions could develop in the credit field or that bureaucracy as such would be as extensive as it is right now. As a matter of cold fact and the record itself, the banking system has continued to lose freedom because of its shocking inefficiency, its disgraceful record

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of failures in the past, and its failure to adapt itself to supply the credit needs of modern times. As a result, Government has continued to encroach more and more upon the banking field to provide the credit and services which the banks themselves have failed to provide or have been prohibited from extending. A continuation of that trend could lead only to the ultimate complete eclipse of private banking enterprise and the eventual usurpation of the field by Government.

As the banking system breaks down or falls down in supplying needed credit to agriculture, in the mortgage field, and otherwise, banking leadership characteristically does little more than complain. It has signally failed to demonstrate real leadership and has, for the most part, merely stood pat. But the politician does not stand pat under pressures from his constituents, whether farmers or business men, and he votes to set up Government credit agencies when private banking fails to furnish the credits and services demanded by the public.

It can hardly be said that we have, despite all the supervision, examination, insurance of deposits, and legal restraints and restrictions, established even a fair-weather banking system, for many of the smaller units are being liquidated today, in the greatest of all war booms, because they cannot make a sufficient living. Certainly the system remains far from capable of weathering economic adversities in the future. That is why I am so eager to see the system improve, insofar as it is possible to do so, in view of the conflicting interests, prejudices and political difficulties. Either banking leadership will guide and take command of the adaptation to modern conditions or it will be forced upon them, possibly by impractical legislation that chips away further and further at private banking enterprise. There is nothing you or I or anybody else can do to arrest the march of modern economic forces which have brought about mergers and consolidations in almost every field, the railroads, industry, the chain stores -- that is, in every field except banking. American business does not stop at State lines. Its credit needs are often far greater than the small unit bank can supply. That has been and will continue, I think, to be the trend.

The basic questions I had in mind in making this talk and in thinking of the future of American banking are how it may best serve the public interest and at the same time continue to make a living, and how it can best be fortified to meet changing economic conditions without further Government encroachment upon its field. Looking at the broad picture from that standpoint, with my deep interest in the preservation of private enterprise in this and other lines, I cannot possibly stand pat, and I sincerely regret that men of your experience and prominence

Mr. Wood Netherland - (3)

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in American banking seem willing to stand pat.

I recognize, of course, as you do, that we are not going to change each other's views by an exchange of letters, but I think that in self-preservation you should be on my side.

With kindest personal regards,

Sincerely yours,



ET:b

STATE BANK DIVISION

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ST. PETERSBURG, FLORIDA

DEPUTY MANAGER, A.B.A.  
WALTER B. FRENCH  
22 EAST 40 STREET, NEW YORK 16, N. Y.  
SECRETARY  
MELVIN C. MILLER  
22 EAST 40 STREET, NEW YORK 16, N. Y.

THE  
AMERICAN BANKERS  
ASSOCIATION

*22 East 40 Street, New York 16, N.Y.*

BRANCH OFFICE

719—15 STREET, N.W., WASHINGTON 5, D.C.

October 25, 1943

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

Dear Marriner:

It was generous of you to take the time to reply so fully to my letter of October 1, commenting on your speech before the National Association of State Supervisors. No one should doubt your sincerity. The mere fact that you chose such an unsympathetic atmosphere in which to restate your position is ample evidence that you were not seeking applause.

I cannot subscribe to your rather sweeping indictment of our banking system "because of its shocking inefficiency, its disgraceful record of failures in the past, and its failure to adapt itself to supply the credit needs of modern times." You cannot successfully sustain this indictment if there is brought into evidence those National traits which have made America a land of happiness and plenty, where the office boy of today is president of his corporation tomorrow.

I know the usual statistics with respect to the large number of bank failures over such and such period, but those who quote these statistics overlook the fact that in spite of these failures we still have more solvent and outstanding banks than any country in the world, to which banks today we witness the constant flow of capital funds from other nations as they seek a haven of safety. To be sure, we wish all this progress could have been made without the grief that has accompanied it, but it was inevitable that our banking system should embody the same virtues and defects of that individual yen for venture or "take a chance" spirit that has been the "leaven" of our evolution from a wilderness to the greatest nation on earth in a span of one hundred and seventy-five years. This didn't "just happen", and I shall remain firm in the conviction that our banking system, responsive to the local needs, or emotions if you choose, has in no small measure been responsible for

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this phenomenon. In underwriting this progress, the casualties have been great, but it is the net that counts. Our philosophy has been, so to speak "where the vanguard camps today, the rear shall camp tomorrow."

For a time subsequent to the bank holiday, my faith, too, in our dual banking system was shaken but in subsequent years as events in other lands have unfolded and I have seen the hand of centralized authority in this country as well as others break down the barriers set up by our founding fathers against centralization, I have returned to a deeper appreciation of their wisdom of reserving to the individual states all authority that is not necessary for our collective protection. That which you call "the terrible hodgepodge of the present banking system" which logically could be applied to our executive, legislative, tax, or judicial systems, is simply democracy at work and a final bulwark against streamlined regimentation. Therein lies the choice of which I speak between efficiency and freedom and for my part I want only so much of the first as is compatible with the last.

If we could be absolutely sure that governments were always to be presided over by perfect men and their decisions and intentions unquestioned, then I might subscribe to your theory of branch banking across state lines or as you put it "in a properly regulated trade area" but such a nebulous provision would only open the door to nationwide branch banking. Therefore, these limitations must be specific, viz., city, county, or state boundaries which are rarely changed and certainly are less subject to partisan determination.

Now as to the disposition of bankers to "standpat" as you term it, I can't get very much excited over this accusation. I have heard about it for some thirty-five years along with the glass eye story, and I wonder some times where we would be when such problems as the issuance of non-interest bearing bonds, the free and unlimited coinage of silver, government ownership of our central bank and the like come along if we did not have a large membership in the ancient, free and maligned order of "standpatters." I have the suspicion that most of the managements of our 2500 banks that have been in existence over half a century (which by the way is a record for any type of organization) are charter members of this "standpatters" lodge.

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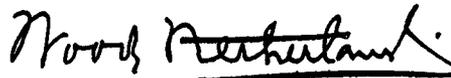
Nor, can I become particularly panic stricken when politicians demand that if bankers "standpat" and do not provide easy credit the government will set up agencies to do so. To yield to such clamour, if one is convinced that it is unwise, would be appeasement in its worst form and unworthy of those who have the proper sense of trusteeship in handling other peoples money. The record of every sovereign nation which has embarked on a lending program, except to supply temporary elasticity either to the circulating medium or the credit structure when a stalemate has existed, discloses such universal failure that he who runs may read. If people who advocate such a thing cannot profit from history, one at least does not need to join the stampede.

In such a situation, I can but remember such appeasements as Munich or what is more apropos to this discussion the spectacle of Mirabeau before the French National Assembly when he finally yielded to the demands of another issue of assignats because he could not bear to be dubbed a "standpatter" and thus the revolution was on. Had he stood pat, what a different world we might have had!

Perhaps it is true as you point out "there is nothing you or I or anybody else can do to arrest the march of economic forces which have brought about mergers and consolidations in every field, the railroads, industry, the chainstores - that is in every field except banking." You fail to mention one other, however, and that is political. No one wants to stifle or arrest the dynamic forces in our economy as represented by industry, but government and finance are regulative forces, the one serving as a check on the other and though we have gone a long way toward removing these checks and balances, God forbid that either of these forces should become so large as to overpower the other, or what is worse that there should be an unholy combination of the two.

Accept assurances of my continued esteem and good wishes.

Sincerely yours



Wood Netherland

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