

X-3609

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January 4, 1922.

My dear Mr. Peek:

Your esteemed favor of December 26 in reply to my letter of December 22 is gladly received and read with much interest. After reading and re-reading it, however, I am reluctantly forced to agree with you that since our viewpoints are at such a variance, it would seem to be an insurmountable task to harmonize them.

Before dropping the case with you, however, I want to impress upon you the fact that we have not a central banking system in this country. Our system is a decentralized banking system under the supervision of a central board. I cannot refrain from making the statement at this time that in my opinion the power possessed by the Federal Reserve Board is in the minds of the public greatly exaggerated. The Federal Reserve Act defines the duties of the Federal Reserve Board and if the Board has any power it should not have (I cannot think of any at this time) it would be a simple matter for Congress to amend the Act. It is most certain that the Federal Reserve Board cannot make any loans, and it has no control over the loans made by Federal reserve banks, the general nature of which is regulated by law as interpreted by the regulations of the Board. The Federal Reserve Board has never deemed it proper and has no legal authority to interfere in the relations between a reserve bank and its member banks. Still less can the Reserve Board control the loans of member banks to their customers. Such loans are entirely within the discretion of the banks themselves, except in so far as they are restricted by the National Banking Act and by State Banking Laws. The rates of interest charged to customers by member banks are entirely the result of local and economic conditions in so far as they are not regulated by state laws. In other words, neither the Federal Reserve Board nor the Federal reserve banks have anything whatever to do with the rates of interest charged the borrower or any control over loans made by a member bank to its customers.

It is a fact, however, that some member banks, as well as non-member banks, that did not want to grant applications for loans on account of their undesirability or because the bank was already in an overextended condition, have given as a reason for declining

the application, the statement that the Federal Reserve Board or the Federal reserve bank would not permit the bank to make any more loans. This is a species of "passing the buck" and has been the cause of much of the unfair and unjust criticism of the Federal Reserve system.

My viewpoint in making an analysis of the operation of the Federal Reserve system is that of one who has been in the banking business for a quarter of a century, in one of the best agricultural sections in the United States if you please, who also has seen service on the Federal Reserve Board for twenty months. Consequently I am looking from without as well as from within, and it occurs to me that the old saying "the proof of the pudding is in the eating" applies particularly well to the operation of the Federal Reserve system. It has been given a test of such severity as no one ever dreamed of and has weathered the storm as no other banking system in the world was able to do.

The policies of the Federal Reserve System are the result of the most careful study of the Federal Reserve Board in conjunction with the advice of an Advisory Council composed of twelve men, one from each Federal Reserve District appointed by the directors of the Federal reserve banks. In addition to the Advisory Council, the Federal Reserve Board is in constant touch with the Federal Reserve Agents and the Governors of the Federal reserve banks and through them with the Boards of Directors of the twelve Federal reserve banks and the twenty-three branches. These Boards of Directors are composed of representative bankers and business men who are thoroughly familiar with the needs and resources of their Districts. The Advisory Council is composed of men of wide experience in finance from every section of the country who meet in Washington four times each year with the Federal Reserve Board. The policies of the System are largely the result of these conferences. The Chicago District has been represented by such able and distinguished men as Messrs. James B. Forgan and John J. Mitchell. I mention this for the purpose of calling your attention to the fact that the policies of the Federal Reserve System are not the creation of any one mind or even of the Board, but are established by and with the advice of recognized and most highly respected financial intelligence.

While we cannot seem to agree as to the cause of the troubles of the past, we can certainly join in hopes for the future; that the coming year will see a Europe earnestly working for peace and well on the road to economic recovery; an America with continued good crops, better prices, increased industrial activity, and fewer misunderstandings between employer and employee, which necessarily entail hardships for all.

With best wishes for your own good health and prosperity, I am

Very truly yours,

(Signed) John R. Mitchell.

Mr. George N. Peek,
Moline, Ill.