Form F. R. 511

TO _____

FROM _____

REMARKS:

The attached letters were delivered to Mr. Early by Mr. Thurston on January 17, 1941.

CHAIRMAN'S OFFICE

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

January 17, 1941.

My dear Mr. President:

You are so burdened with more urgent problems that I have deferred troubling you about the Reserve System's special report. In justice to all of us on the Board, however, I think it most important that you should not have an erroneous impression about it. Unfortunately, some of the press and some individuals have seen fit to stress subordinate aspects of it and to lose sight of its real import.

I can put it no better than the editorial in The Nation of January 11, which said:

> "In some quarters the proposals of Mr. Eccles and his colleagues are being treated as a slap at the Administration and a confession of past errors. This of course is sheer nonsense. Objections may be raised by the Treasury and other government departments to certain details of the Federal Reserve report, but informed supporters of the New Deal will certainly not carp at the general principle that a managed monetary system must restrain inflation as well as combat deflation."

This Board, all of whose members you appointed, would not have approved this report had they not felt that its purpose was in complete harmony with your monetary objective of a dollar of reasonably stable purchasing and debt-paying power. It may suit the purpose of some to try to make this report look like the typical bankers' play to curb presidential powers and get higher interest rates. That is eyewash. I have been fighting for seven years for New Deal principles. I have taken it on the chin from the bankers, among others, at times when fair-weather friends have run to cover. I am not caving in at this late date.

In order to understand the Board's position in connection with the report, it is essential to know what its genesis was and the legislative strategy we had in mind in agreeing to it. That agreement was based, first of all, upon the significant concessions which the bankers made in the report itself. Beyond that, however, it was based on the intention of the majority, possibly all of the members of the Board, to recommend additional legislative action that would not only end the inevitable conflicts resulting from the present divided Federal monetary and banking authorities, but -- and this is of primary importance -- in doing so, would allocate to the Reserve System such powers as are necessary to discharge its public responsibilities only on condition that the System be completely freed from banker influence and that the President be given a direct power of initiative and veto over creation of bank credit resources through this System. We subscribed to the lapsing or withdrawal of the existing so-called presidential powers, not because we

shared the bankers' attitude towards them or thought they might be used, but because we felt the President should be given even stronger, more direct and more effective means of controlling monetary resources through the established banking mechanism rather than by retaining scattered powers operating outside the banking system which served their purpose during deflation but seem to us to be outdated in the light of present and prospective conditions. However, we recognized that if you had reasons why you preferred to retain the existing powers, we could not see that this conflicted in any vital way with the objectives either of the report or the additional legislation contemplated.

The Federal Advisory Council several months ago unanimously adopted and proposed to publish a blast against the whole gamut of Administration and Reserve Board policy. This would have created an open breach within the System that we felt a responsibility for avoiding if possible. It was proposed, instead, to see if we could not compromise our differences sufficiently to agree upon a joint System report. In the end we were gratified and surprised at how far the Council and the Reserve Bank presidents were willing to go, not only in abandoning positions they had taken, but in coming around to the Board's viewpoint in important respects.

For instance, it was not easy to get them to agree, as they did, to giving the Reserve System powers to lock up as much as 28 per cent of their deposits in the case of country banks and 52 per cent for New York banks, by increasing reserve requirements if and when that may become necessary. It was not easy to get them to agree, as they did, that all banks of deposit must carry their required reserves with Federal Reserve Banks, whereas now some 7,000 nonmember banks carry their reserves chiefly with the big city banks -- which makes for over-concentration of funds and gives the big banks whatever benefits accrue. Likewise, it was not easy to get them to agree, as they did, that when the country approaches a condition of full utilization of its economic capacity the budget should be balanced by increasing revenues from taxation. Their pet idea has been that the budget should be balanced by slashing all but defense expenditures to the bone regardless of the level of economic activity. Similarly, they were reluctant to agree, as they did, that other measures, such as taxation and direct government controls to deal with industrial and labor bottlenecks, were as important as, or even more important than, monetary action in dealing with inflationary developments.

While they consented to these and other proposals after almost endless discussion, they never would have done so, in my judgment, if the Board had ignored the underlying causes of inflationary monetary conditions that are developing and the potential $15 billions of additional excess reserves and deposits that could be added to the present unprecedented totals of both excess reserves and deposits if the existing, unused monetary powers to devalue gold and silver, issue greenbacks, and utilize silver seigniorage were exercised. The majority of the Board, if not all, in agreeing to the lapsing or discontinuance of these potential sources of reserves and deposits, had in mind the legislative strategy to which I have referred. They did not propose to do away with what, in effect, has been a necessary shotgun back of the door to deal with a recalcitrant, privately-owned central banking system

during a time of deflationary emergency. They had in mind doing away, first, with the private ownership and all trace of banker control, making the Reserve System as much a part of the administrative branch of Government as the Treasury, and then substituting direct presidential powers over creation of monetary resources through the banking system for the existing scattered and extraneous devices. I did not ask that you endorse the System's report because it seemed to me that the Board would be in a much better strategic position to seek the legislation which I have outlined and which is far beyond what the bankers would willingly accept, if you neither approved nor disapproved of the report.

If I have been delinquent in not giving you this background before, it is because I hesitate to impose on your over-crowded time any more than absolutely necessary and because these matters have been in a prolonged process of discussion and development. Moreover, we were put on something of a spot about issuing the report. Steve knows about that, but I want to say that he performed a real service in helping to correct press speculation that there would be a battle over the report between the White House, Treasury and Reserve System. Until Henry's subsequent press conference, at which he belittled the report and revived press accounts of Treasury opposition, all of us on the Board had felt we had done a pretty good job in the public interest and in the interest of the Administration. Since then we have felt more impotent and discouraged than ever.

It seems to me, therefore, that I must impose on your time in an effort to clarify the banking and monetary picture and avoid so far as possible the even greater confusion that threatens to develop because of the conflicts among the various Federal agencies in connection with the so-called Wagner questionnaire and the hearings covering their entire field which are contemplated by the Senate Committee on Banking and Currency. So far as the Board is concerned, it would be most helpful if you could give me the benefit of your guidance. I hope that you can find an opportunity to do so in the near future.

Respectfully yours,

The Honorable
The President of the United States,
The White House.

January 17, 1941.

Dear Steve:

I am enclosing the letter to the President which you were good enough to assure me you would undertake to have the President read and give me a reply. I have delayed this long because while I know you never escape from high pressures, I hoped there would be a more opportune moment for taking it up with him than appeared likely before.

I feel very strongly that I should have an opportunity to take up with him at the earliest possible time the general outlines of the banking and monetary program we have been working on and to have the benefit of his guidance. Otherwise, we are stymied, for no one else can make the decision as to the procedure he desires and the objectives to be sought. The situation is urgent, or I would not press the subject, and it threatens to develop more and more confusion and needless conflict, which ought to be avoided.

I want to say again that but for your great help and understanding, the situation would be even more difficult to work out, as it must be worked out in the interest of all of us, particularly those of us who have been enlisted in the cause of the Administration for so many years.

Sincerely yours,

Honorable Stephen Early,
Secretary to the President,
The White House.

enclosure

ET:b