File Legislation

(Copy)

January 18, 1938.

Mr. Wyatt

Comments on Reorganization Bill S. 2970.

Mr. Williams

CONFIDENTIAL

By memorandum under date of July 8, 1937, written by you to the Board of Governors as to the Reorganization Bill S. 2700, you advised that Title II, section 203 gave the President power "to fill any vacancy in any office or position of head of any Bureau, Division, Service, or other similar agency which is in or under the jurisdiction or control of and indirectly responsible to the head of an executive department, independent establishment, or independent agency," this to be done with the advice and consent of the Senate.

In a subsequent draft of the Reorganization Bill, known as the Byrnes Bill, S. 2969, this provision was modified but in fact made even more sweeping in its delegation of power.

Under the last Reorganization Bill, S. 2970 (Byrnes Bill), Title II, section 203 of S. 2969 carried forward with the same provisions adding "but only if the President finds that such office or position is policy determining in character" and minor changes in language.

I wish to call your attention to the fact that the majority report upon this Bill, S. 2970, fails to emphasize this section of the Bill. For fear that it may be overlooked that this provision is still in the Bill, I call your attention to it again and to the criticism of it by Senator Byrd in his minority report filed on January 16, 1938, at pages 3, 4 and 7.

I believe this matter is urgent and that we should have a discussion about what steps to take in regard to it.

Respectfully,

Kit Williams,
Assistant Counsel.

STRICTLY CONFIDENTIAL January 18, 1938

REORGANIZATION OF BANK SUPERVISION

Comptroller of the Currency. - Transfer to the Board of Governors all functions of the office of Comptroller of the Currency except those relating to currency, which should be retained in the Treasury Department.

Federal Deposit Insurance Corporation. - Have the Chairman of the Board of Governors succeed the Comptroller of the Currency as an ex officio member of the board of directors of the F.D.I.C. and authorize him to designate any other member of the Board of Governors as his alternate.

Make the chairman of the board of directors of the F.D.I.C. an ex officio member of the Board of Governors and authorize him to designate another member of the board of directors of the F.D.I.C. as his alternate.

Make provision for assigning space to the F.D.I.C. in the Board's building.

STRICTLY CONFIDENTIAL January 18, 1938

TECHNICAL AMENDMENTS

Assignment of duties. - An amendment authorizing the Board of Governors to assign to designated members of the Board or its representatives, under rules and regulations prescribed by the Board, the performance of specific duties and functions, not including the determination of national or System policies, the power to make rules and regulations, or any power which under the Act is required to be exercised by a specified number of members of the Board.

Separation of offices of Chairman and Federal Reserve Agent.- Authorize the Board in its discretion to designate one of the directors appointed by it to serve only as chairman of the Board of directors of the Federal Reserve bank and to appoint a different person, who need not be a director, to serve as Federal Reserve Agent. In such event, relieve the chairman of all statutory duties except those of director and the duty of presiding at meetings of the board of directors. Eliminate the requirement that chairmen, Federal Reserve Agents and Assistant Agents be persons of "tested banking experience".

90 day Treasury bills. - Authorize Federal Reserve banks to purchase Treasury bills having maturities not exceeding 90 days direct from the Treasury.

Discount rates. - Require establishment of discount rates once during each calendar month (instead of every 14 days) and oftener if deemed necessary by the Board of Governors.

Waiver of membership requirements. - Authorize the Board of Governors, whenever it finds that a State bank applying for membership in the Federal Reserve System is in sound financial condition, is being properly managed, has a capital structure adequate for its needs, is being operated in compliance with State law, and is insured or meets the requirements of the F.D.I.C. for insurance, to waive any other requirements for admission to membership.

Facilitating hearings by the Board. - In connection with all hearings conducted by the Board regarding the removal of directors and officers of member banks, the expulsion of State banks from the Federal Reserve System, the revocation of voting permits, and similar matters, give the Board authority similar to that possessed by the Federal Trade Commission, the Interstate Commerce Commission and other administrative agencies to have testimony taken by one or more members of the Board or by such trial examiners as it may designate, and authorizing the Board or its designated representatives to administer oaths and to subpoena witnesses and documents.

STRICTLY CONFIDENTIAL January 18, 1938.

INDUSTRIAL LOANS

Industrial Loan Corporation. - Provide that the Federal Reserve banks shall sell all of their F.D.I.C. stock to the Treasury at par and use the proceeds (1) to provide a capital of at least $50,000,000 for an Industrial Loan Corporation, (2) to repay the amounts advanced by the Treasury to the Federal Reserve banks for industrial loan purposes, and (3) to retire Federal Reserve bank stock.

The proposed Industrial Loan Corporation to be authorized to make loans to business organizations in amounts not exceeding $1,000,000 each and for terms not longer than ten years and to issue tax free debentures up to ten times its capital and surplus.

STRICTLY CONFIDENTIAL January 18, 1938

CHANGES IN BOARD OF GOVERNORS

Board of Governors. - Provide that the Board of Governors shall consist of seven members, one of whom shall be the Chairman, who shall be appointed by the President from any part of the country to serve at the pleasure of the President, another shall be the Chairman of the board of directors of the F.D.I.C., and the other five to be appointed at the expiration of the terms of the present members to serve for terms of ten years, one term expiring every two years. The members of the Board to be eligible for reappointment, to be entitled to the benefits of the Federal Reserve Retirement System and to be required to retire at the age of seventy.

STRICTLY CONFIDENTIAL January 18, 1938.

FEDERAL RESERVE SYSTEM

Federal Reserve bank directorates. - Reduce boards of directors of Federal Reserve banks from nine to seven members each, none of whom shall be a director, officer or employee of any bank. Three members to be persons actively engaged in their districts in commerce, agriculture or industry and to be elected by member banks. The other four directors to be appointed by the Board of Governors. Provide that a majority of the directors of each branch Federal Reserve bank shall be appointed by the Board of Governors.

Federal Advisory Council. - Change the composition of the Federal Advisory Council so that it will consist of the twelve Federal Reserve bank Presidents, and authorize the First Vice President of each bank to serve as the President's alternate.

Federal Open Market Committee. - Transfer the functions of the Federal Open Market Committee to the Board of Governors.

Federal Reserve bank stock. - Reduce dividends to a maximum of 4 percent per annum, cumulative, and provide for the use of remaining net earnings to retire such stock. After all Federal Reserve bank stock has been retired, pay half of the net earnings each year to the Government and add the other half to the surplus of the Federal Reserve banks.

STRICTLY CONFIDENTIAL January 20, 1938

OPPOSITION TO ABOLITION OF COMPTROLLER'S OFFICE

The chief arguments against the abolition of the Comptroller's office and the transfer of his functions to the Board are:

(1) That there should be a single officer charged especially with the duty of looking after national banks and the Board has so many other duties that it would not give proper attention to the special problems of national banks.

(2) That the Comptroller frequently has to take immediate action to appoint conservators or receivers for national banks, bring about consolidations and absorptions, and take other measures to meet emergency situations; and a board could not act promptly enough in such cases.

(3) That these duties could not properly be delegated to Federal Reserve banks, because they have an adverse interest as creditors of member banks.

It is believed that all of these arguments could be overcome by having most of the Comptroller's functions performed by regional bank supervisors appointed by the Board and stationed at the Federal Reserve banks but acting under the general supervision of the Board and in accordance with policies and regulations prescribed by the Board from time to time. All bank examiners could also be appointed by the Board and could work under the supervision of the regional supervisors.

These twelve regional bank supervisors should have access to all information in the possession of the Federal Reserve banks and should cooperate closely with them; but they should be responsible to the Board of Governors and not to the presidents or directors of the Federal Reserve banks.

They should have authority to grant charters, authorize branches, grant trust powers, approve consolidations and appoint conservators without waiting to communicate with Washington but should not appoint receivers until the Board or the Board's chief supervisor in Washington has reviewed the case and decided that the bank should be liquidated. In limited classes of cases, such as refusal to grant bank charters or permission to establish branches, there might be a right of appeal to the Board or to a chief bank supervisor in Washington; but, in ordinary cases, the regional supervisors should have authority to take final action in accordance with the Board's established policies without reference to Washington.

STRICTLY CONFIDENTIAL January 21, 1938

REORGANIZATION BILL AND TENTATIVE BANKING PROGRAM

Things which can be accomplished. - While some of the points are debatable, it is believed that the following could be accomplished under a liberal interpretation of the Senate Reorganization Bill (S. 2970), if enacted in the form in which it was reported to the Senate:

(1) Abolish office of Comptroller of Currency and transfer any or all functions to Board of Governors.

(2) Transfer Comptroller's function of serving as ex officio director of F.D.I.C. to Chairman of Board, and in his absence to another member of Board.

(3) Transfer any or all functions of F.D.I.C. to Board.

(4) Transfer functions of Open Market Committee to Board.

(5) Abolish Federal Advisory Council.

Things that cannot be accomplished. - It would appear that the following cannot be accomplished under a liberal interpretation of the Reorganization Bill (S. 2970):

(1) Make Chairman of the F.D.I.C. ex officio member of Board of Governors. (President not authorized to reorganize or change composition of the Board.)

(2) Appoint Chairman from any part of the country and have him serve at pleasure of President or until end of President's term. (Bill does not authorize President to change qualifications or term of Board members or Chairman.)

(3) Authorize Board to delegate functions. (No such authority in Bill.)

(4) Changes in directors, stock ownership, etc., of Federal Reserve banks. (Bill does not apply to Federal Reserve banks.)

(5) Separation of offices of Chairman and Federal Reserve Agent. (Bill does not apply.)

(6) Change membership of Federal Advisory Council. (Bill does not authorize change of composition.)

(7) Proposed industrial loan corporations. (Bill does not authorize President to create new agencies to exercise any functions not already authorized by law.)

(8) The items listed in the memorandum headed "Technical Amendments". (None of these are within scope of Reorganization Bill.)