

C O P Y

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

March 8, 1950.

Miss Helen C. Ramsdell,
Administrative Assistant,
Senator Charles W. Tobey,
United States Senate,
Washington, D. C.

Dear Miss Ramsdell:

I am enclosing the copy of the letter which I sent to Congressman Shafer and a copy of that portion of the Congressional Record mentioned therein, about which I just talked to you on the telephone.

I hope you will have an early opportunity to read these enclosures and call them to the attention of Senator Tobey for the purpose of having him put the letter in the Congressional Record. I will telephone either tomorrow afternoon or the first of next week after you have had an opportunity to talk to the Senator about the matter.

Assuring you of my appreciation for your assistance,

Sincerely,

(Signed) M. S. Eccles.

M. S. Eccles.

Enclosures

From Appendix, Congressional Record, March 16, 1950

"Extension of Remarks of Hon. Paul W. Shafer of Michigan in the House of Representatives, Wednesday, March 8, 1950.

"MR. SHAFER. Mr. Speaker, since my speech in this House on February 21 in which I called attention to the un-American and immoral packing of the Federal Reserve Board I have been deluged with letters, telephone calls, personal visits, and telegrams from bankers, businessmen, lawyers, and other citizens from all parts of the United States, suggesting that I further explore the subject. I have received many letters on the subject; a truly amazing number in view of the very limited publicity given to my remarks. They reveal a state of mind—a fear of the powers and autocratic conduct of the Federal Reserve Board—on the part of bankers, bank customers, and business people generally that is quite different from any situation I have ever before noted in this Republic; and I think I am well advised to go into the matter more thoroughly and carefully.

"I was very much surprised that no communication was sent to me by Mr. Thomas B. McCabe, Chairman of the Board, but I did note a rather impassioned one by the former chairman, Mr. Marriner Eccles. This indicated a weird situation of the Board wherein a former Chairman was mysteriously bounced from his job by President Truman, in a situation which has never been explained. Was it that the White House was aware of this packing procedure while Mr. Eccles was Governor, and in its soft-peddling way removed him from ^{his} position of one-man rule, surrounded by his stooges and now still another stooge is yet in the person of the Chairman of the Board? I assume the communication is intended as a defense of his successful campaign to set up the Board as an obedient and submissive group who would do bidding without question or public remark. But, as a matter of fact, Mr. Eccles' letter openly confirms the most important criticism I have made; to wit, that the letter and spirit of the law has been violated in the selection of the Governors by failure to regard that provision intended to insure equitable geographical representation on the Board. Mr. Eccles does not deny that Governor Evans, a native-born, lifelong citizen of Iowa, a man who even to this day considers himself and refers to himself as an Iowan because of his large farming and business interests in that State, was, nevertheless, appointed from the grand Old Dominion State of Virginia, although he was only a temporary resident of that State because of his importation here to the Agricultural Department by Henry Agard Wallace, as Wallace's personal aid and protege, as a corn-hog plowman-under.

"Mr. Eccles does not deny that the late Governor Clayton, a native-born, life-long citizen of Utah, Eccles' personal protege and clerk for more than 20 years, always, like Eccles and several members of his staff, a loyal Utah citizen, was appointed from, of all places, the Commonwealth of Massachusetts and Boston. What an unkind and underhanded blow to the ghosts of the sturdy New Englanders whose high principles of honesty and fair play have played such an important part in building the moral fiber of this Nation. In my previous talk on this subject

I explained why the late Mr. Clayton was said to have moved to Boston shortly before his appointment to the Board.

"Mr. Eccles did not deny that Governor Szymczak was reappointed at his, Mr. Eccles' insistence, in 1948 for a full term of 14 years, in spite of the fact that he had been serving continuously and without interruption as a member of the Board for more than 14 years; and that by his reappointment he would (and there seems no reason for his throwing up the 'cushy' job)—if he serves out his term—he will have been a member of the Board continuously and without interruption for more than 29 years. This, in the face of positive provision written into the law by this Congress that no member of the Board would be eligible for reappointment if he had served a continuous term of 14 years. I am not interested in the devious evasions indulged in by Mr. Eccles, his staff of lawyers, and others, in accomplishing this continuance in office of one of Mr. Eccles' most loyal henchmen. What I am interested in is calling attention of this Congress to the brazen disregard of the letter and spirit of its laws, by these bureaucrats who, apparently and by their high-handed, star-chamber methods, regard themselves as untouchable and above the law and this Congress.

"Mr. Eccles does not deny that in his own personal case as a member of the Board, the spirit of the law has been violated so that he, by having himself juggled and shifted from one term to another, will be permitted to serve a far greater number of years than the 14-year maximum which this Congress thought it was fixing when the Federal Reserve Act of 1935 was enacted. If Mr. Eccles serves out his present term he will have served as a member of the Board continuously and without interruption more than 24 years.

"Stripped of all nonessential talk and consideration, the cold fact is that the great northeastern, southeastern, Southern, and southwestern sections of the United States are represented on the seven-man Federal Reserve Board by only one *signe bona fide* resident of any of those vast areas, and that man is Thomas Bayard McCabe, a New Deal, Fair Deal, Republico Democrato, hailing from Chester, Pa. Mr. McCabe is a pleasant, well-meaning and agreeable sales gentleman, with a limited knowledge and experience in Federal Reserve matters. The administrative ability as a public official of this delightful and successful sales manager of a toilet paper concern was thoroughly and painfully brought to light during the 4 months of hearings by the Senate committee which was considering his appointment 2 years ago. His ability as a private business executive is best illustrated by the fact that his paper company has progressed more in the few short years he has been away from it than it did during the entire period of his long career as its active president.

"There is nominally one other representative of the Eastern States on the Board, a retired businessman named Draper, whose 10-year term on the Board expired on February 1 of this year, and he is serving in the embarrassing capacity of a "hang-over" awaiting the appointment of his successor. Governor Draper's service has been marked by routine and unquestioning obedience to Mr. Eccles, and I doubt that the minutes of the Board will reveal more than two instances during the entire 10 years that he voted contrary to Mr. Eccles' wishes.

"At present there are only five members of this seven-man Board serving proper terms, Messrs. McCabe, Eccles, Szymczak, Evans, and Vardaman—with Mr. Draper occupying a sixth place because of failure of the President to name his successor. Governor Evans is absent from the Board most of the time, and has been for the past year or more, so four active members are conducting the Board's business in Washington, with Mr. Draper standing by 'on sufferance', as it were. This is not a healthy situation, especially in view of the casual attitude of Mr. McCabe as an administrator and leader. It is a situation much to the liking, I presume, of Mr. Eccles and his hand-picked staff, because it gives them continued and practically undisputed sway in Board matters.

"And my prediction is that unless this Congress puts some pressure in the proper place the two vacancies on the Board will not be filled, but the situation will be allowed to drag on indefinitely.

"I note in the Eccles' letter no hint of the customary declaration that he was speaking as an individual and not for the Board. Of course, I thought—and so did the public, I believe—that Mr. Eccles had been repudiated and removed as head of the Board when Mr. McCabe was appointed Chairman in 1948. But after looking into the matter and asking many questions of people who should know, I don't seem to find any evidence that Mr. McCabe has done much else than to physically occupy the Chairman's office in the Federal Reserve Building, and causing Mr. Eccles the slight inconvenience of moving a few doors down the hall on the same floor.

"As to Governor Vardaman, he is one of the closest personal friends of President Truman in Washington official life and there is less said about it than of any other man. I found out from long-time employees of the Federal Reserve Board, who are very uncomfortable about the one-man rule there, that Mr. Vardaman is regarded as the great dissenter in many of the Board's policies and I assume that his dissents reflect a very uncomfortable feeling of the man in the White House who sees a bureaucrat remaining as the real Chairman of the Board even after he has been displaced.

"Certainly there has been no change in policy, or in basic thinking, or in arbitrary and bureaucratic conduct by the majority of the Board and Staff. It is true that the statements of the Board and its communications with the various committees of the Congress have become more verbose and longer and almost wholly innocuous and 'straddling' in their content. But the old staff is still on the job, efficient, intact, and impregnable. Mr. McCabe has been allowed to bring in one economist, an excellent man, so I am told, by the name of Riefler, to try and teach McCabe the ABC's of national economics, fiscal finance, and otherwise guide him. This man has done a good job, it is said, but is apparently getting discouraged over his pupil, and it is rumored that he is considering becoming a member of the President's Economic Council—that new-thoughtist body headed by Mr. Leon Keyserling.

"I am further informed that Mr. McCabe also brought along with him an able young assistant who up until a few months ago acted as his personal secretary. But late last year he too became discouraged, it is said, over the impregnability of the Eccles selected staff, and resigned his position with the Board and went back home to Chester, Pa., and the paper company.

"As things now stand, Mr. McCabe is the nominal head of the Board, but he has not made one single major change in personnel or policy during his 2 years of administration. Since he has, presumably, the backing of the administration, he could make almost any change he desired; so, I am bound to conclude, in view of his acquiescence and failure to act, that he, like some of his colleagues, is satisfied to be and function in all things as an Eccles satellite, or at least, as a messenger boy for Eccles' hand-picked board, and for Eccles' more thoroughly hand-picked staff.

"It should be borne in mind that this Board is, theoretically, a direct agent of this Congress. It operates without any supervision whatsoever as to policies, personnel, or expenditures, except those broad provisions of congressional enactments directly applicable to the Board. It is not subject to the Bureau of the Budget. It is not subject to the Comptroller General. It derives its money from assessments on Federal Reserve banks made by the Board itself, and without recourse on the part of the banks. It spends its moneys thus derived without supervision or limitation or examination from any other Federal agency. It can employ as many people as it desires, and whoever it desires, without reference to any other person or Federal agency. And it can spend as much money as it wants for whatever legal purpose it wants, with little or no restriction, and with no accountability except to the Congress itself.

"The only report of its activities and expenditures required by the Congress is the Board's long and laborious and boring annual report. This report covers the high lights of policy, activities, and expenditures, but is limited as to detail, and is in no sense a detailed financial report. There is also a policy record kept and filed with the Congress, I believe, but that relates solely to the official voting record of the Board members, and has nothing to do with other activities or expenditures.

"I am not prepared to say at this moment that I am opposed to so much authority being given the Board; nor am I prepared to say that the Board has unduly abused its powers or made expenditures which were not justified. But one point I do want to make, and it is the one which is uppermost in my mind at the moment: And that is, that a Board such as this, with so much power for good or evil, for economy or extravagance, should be well above suspicion as to quality, qualifications, manner of selection, and legal qualifications of its membership. The selection of men to serve on such a Board should carefully follow the intent as well as the letter of the law. There should be no shifty skullduggery, or questionable procedure, [redacted] such as fake residency claims, technical avoidance of the law's letter as to length of service, or other technicalities. Above all, men of independent judgment, men of banking or business experience in their own right, and men above question as to their impersonal and objective approach to those questions properly coming before the Board should be selected. Any appearance of packing or of one-man control or domination; or over-balancing in favor of one political party or one school of thought—all of these weaknesses should be avoided.

"And I submit that they have not only not been avoided in the case of the present Board; but I charge that many of the faults mentioned are present in the incumbent Board. And I think this Congress should look into the situation carefully and see just what this hand-picked Board and staff are doing with the tremendous and potentially dangerous authority it possesses, and just what is being done with the vast sums of money which the Board has at its command. And, too, I think the Congress should inquire into the question of Board membership to see if fraud was perpetrated in the appointment of Governors Evans and Clayton and in the reappointment of Governors Eccles and Szymczak. And the Congress might also inquire to see whether or not it is the intention of the administration to let the two present vacancies stand and allow the continuance of the present out-of-balance Eccles-dominated Board; or will the administration carry out the intent of the law and appoint two qualified men to fill these vacancies who shall give the Board something in the nature of the legally intended balance geographically, economically, politically, and otherwise?"