

15-17
September, 1955 5

Internal Memorandum

Papers of Owan D. Young

Boof 264

to ?

This letter discusses the relationship between the Board and the Banks and says in part, "My feeling has always been that the Federal Reserve Board, either influenced by political considerations or by its desire to secure control of the Banks, would appoint as Class C directors men who would be mere agents and servants of the Board, and that such a group throughout the System cooperating closely with each other and the Board might be able to dominate the System. They would dominate it not because of their strength, but because they could make it so uncomfortable for the elected directors of the Bank that men of power and position would not serve. If I were on the Federal Reserve Board and wanted to dominate the Federal Reserve System and centralize its power in Washington, I would name my own henchmen and on every Bank in the System, to be sure that they were men who would take orders.

'The present tendency is exactly the reverse of that, and whatever may be the motive bank of it, it is to my mind all to the good. If the motive be to get control of the Federal Reserve Bank - and I think that motive may exist in the minds of some - the method adopted will fail. Take our own situation in New York as an illustration. I think that the influence of the Federal Reserve Board in our affairs will be less with Gates McGarrah as chairman than it would be with Dr. Burgess as chairman; not that Burgess is not as strong as McGarrah, but he is less well known, and therefore his resistance would be less effective. As a matter of fact, the Board might with safety to itself endeavor to dominate Burgess, but it could scarcely do so with McGarrah and therefore would be much less likely to try. If equally strong men can be put into the other Reserve Banks in place of the men already there, I feel that we will have insured the System against the very centralization which you fear and against which for ~~you~~ so many years you have given such effective resistance.

'In the early years you were compelled to do it almost single handed in the sense that you had no outstanding men as associates in the officers of the other Banks, That you succeeded in doing what you did is my best argument. If one man of outstanding character and ability in a new System could resist the encroachment of the Federal Reserve Board on the independence of the several Banks, then it seems to me that a group of strong men as Class C directors could support the officers of these Banks and make them almost invincible against any attack of any kind from the Federal Reserve Board, Whether such an attack be induced by the desperation of a bureacracy or by political ambition. Certainly you cannot have any stronger views against centralization in Washington than those held by Gates McGarrah, Clarence Woolley and myself. If the Class C directors of the other Federal Reserve Banks were of a similar type, there is every reason to believe that we would all be a unit in our views on that subject, and I do not see how the Federal Reserve Board could make any encroachments on the independence of the so-called banks because the avenues through which the Board could normally act would all be closed.

' ... I have tried to say several times that to my mind the Federal Reserve Act is like the Constitution of the United States and all other great charters for that matter. At first it can only draw the outline of the picture, and if it had been entirely wisely drawn, it would have omitted many details which were inserted. After the outline is drawn then we fill in the picture by precedents. We do what John Marshall did to the Constitution. We do what the British Parliament has done to the Magna Carta. Therefore the work which you have been doing for these many years in watching precedents has been most important, vital I think to the System. You have a great many precedents down already, and they are not likely to be broken.

'Now we have the foreign situation which was not in contemplation of the drafters of the Act at all. There we have to learn how to make the Act function wholly on precedent with very little outline to the picture. It is important how we handle that job in the early years in order that the precedents may be right.

'The point which I want to make on all this is to let you know that I appreciate the importance of the precedents which were established and that I recognize the necessity of watching them carefully in the future. I must say this, however, then when you were fighting pretty much alone it was necessary for you always to lean backwards lest you make a concession which would weaken you tremendously in the future. That practice I do not regard so necessary now. If a man were fighting alone, he could scarcely trust himself to a conference of any kind under a flag of truce. One violation of good faith by his adversaries and it would be all over. If, however, a man has an army back of him as well organized and as strong as the opposing army, he may quite safely trust himself under a flag of truce with full knowledge that neither will dare violate it. It is that, to my mind, which is happening now. Instead of assault and counter-assault on each other's positions, we are meeting to discuss them quite frankly and openly but with firmness. We are not going to surrender any important positions, but we should eliminating much petty skirmishing. If the Federal Reserve Board is able to take any major position as result of negotiation, then I would be almost willing to concede that they ought to run the Bank."

P.S. A letter from Pierre Jay dated April 6, 1927, Berlin, acknowledges Mr. Young's letter telling him what happened about the McGarrah appointment and so forth, and says "I am delighted to learn of the results you have had in straightening out our relations with the Federal Reserve Board which Case and I felt would never get straightened out until you took a hand in it, and of course your position as deputy chairman has enabled you most satisfactorily to do it."

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