

TO Attach to Memo to President 5/15/39

FROM Chairman Eccles

~~REMARKS:~~ 5/15/39

The attached memo was discussed with the President at conference today, and he gave his approval. He dictated a memo to Mr. Kannee in my presence in which the President instructed him to telephone to Senator Wagner. The substance of the memo was that he was very much in favor of Senator Wagner going ahead with hearings on his resolution and that the Senator had the President's support and best wishes.

CHAIRMAN'S OFFICE

*Not left with
Fraser*

May 15, 1939.

MEMORANDUM:

TO - The President
FROM - Chairman Eccles

Better organization of our banking machinery is urgently needed. Your reorganization program will go down in history as one of the most notable achievements of this Administration. However, the job cannot be complete unless the banking situation is likewise dealt with. The confusion in this field is greater and the necessity for prompt action more urgent than in any other area of Government authority and operation. In the Annual Report for 1938 the Board of Governors pointed out that as a result of many years of piecemeal development "the banking picture emerges as a crazy quilt of conflicting powers and jurisdictions, of overlapping authorities and gaps in authority, of restrictions making it difficult for banks to serve their communities and make a living, and of conditions making it next to impossible for public authorities to apply adequate restraints at a time and in conditions when this may be in the public interest."

So far as the Reserve System is concerned, the situation is already so far out of hand--and is growing daily more beyond control--that the System is helpless to discharge the

usual responsibilities of a central banking organization. To permit this situation to drift would be dangerous.

No latitude is given to the President under the Reorganization Bill except to transfer the functions of the Comptroller of the Currency, but that would be only another piecemeal step that would not begin to meet the situation in any respect.

The so-called Brown Bill, in which there appears to be a great deal of interest in the Senate, proposes to transfer all of the examination functions both of the Comptroller's Office and of the Federal Reserve Board to the Federal Deposit Insurance Corporation. To dump all bank examinations into the lap of the insuring agency, which is primarily interested in protecting its insurance fund, would be a mistake.

Examination and investment policy are closely tied in with the broad purposes and objectives of credit policy and creation of the country's money supply. It is impossible for the Reserve System, for example, to carry out an easy money policy if, as has happened in the past, examining agencies pursue a restrictive policy, discouraging bank lending and investment, because of a desire to keep the banks in a highly liquid condition on the theory that this will best protect the insurance fund. The insuring agency was not set up for the purpose and is not equipped to determine or carry out credit policy.

I am informed that some of the sponsors of the Brown Bill want to hold hearings on it, not for the purpose of bringing about necessary further improvements in the banking machinery, but as a medium for airing animosities against the Administration. In my opinion, the best way to head off the Brown Bill, as well as the extraordinary number of other pending measures proposing all sorts of monetary schemes, would be to adopt the resolution recently introduced by Senator Wagner which has been referred to and is pending before the Banking and Currency Committee of the Senate. Moreover, the broad fundamental objectives of monetary policy should be determined by Congress before deciding where existing authorities should be allocated and what additional powers are needed to carry out these purposes. To shuffle the existing agencies around first would be putting the cart before the horse.

The terms of the Wagner Resolution are sufficiently broad to permit the full Committee on Banking and Currency to deal comprehensively with the whole range of closely inter-related monetary, credit and banking problems. I feel that such an approach is of the greatest importance at this juncture, particularly because of the existing confusion and multiplicity of monetary proposals already introduced in Congress and being promoted by a variety of groups and blocs.

The country is being deluged with plausible propaganda on behalf of many of the various schemes for currency issues, for higher gold and silver prices, for penalizing idle funds, for reshuffling the Reserve System, for 100 per cent reserves, for new systems of banks to supply capital especially to small business, etc. Nobody undertakes to expose the fallacies in these proposals. The most effective way to clear the air of this confusion and conflict would be through adoption of the Wagner Resolution calling for a broad study, as the Resolution states, "to determine a national monetary and banking policy by which the monetary and banking authorities of the Federal Government shall be guided and governed, and to determine the character of governmental machinery best calculated to carry out such policy."

I have discussed the matter with Senator Wagner, who expects to go ahead with his resolution. I am satisfied that under Wagner's guidance nobody will be able to use the Committee for partisan purposes or to work off personal grudges. He proposes to have the whole Committee, which is under his direction as Chairman, conduct hearings and to see to it that no packed or partisan subcommittee, such as is threatened by the Brown Bill, will take the lead. He is interested in a broad, constructive study and not in an inquisition.

I am convinced that this course is eminently desirable from the Administration's standpoint; that it will remove any possibility of political charges being made in the 1940 campaign that the Administration has been remiss in dealing with banking, credit and monetary problems that must be met; and that it will serve to complete the Administration's achievement in reopening and rehabilitating the banking system following the banking holiday, which is still officially in effect.

My purpose in this memorandum is merely to suggest that you approve Senator Wagner's program, but if, for reasons which I cannot conceive, you have a contrary view, that you give the Senator and myself an opportunity for a complete discussion with you of the entire problem which I have only attempted to highlight here.