Form F. R. 511

TO _____

FROM _____

REMARKS:

January 29th, 1941

Chairman Eccles had luncheon with President Roosevelt; took these memos. with him, discussed them with the President, but did not leave them with him.

(Carbon copies of these memos. are filed in "Banking Legislation - 1941" file.)

CHAIRMAN'S OFFICE

1. Background of report: A substitute for Advisory Council attack on Administration and Board; compromise to avoid open breach; report must be judged with further legislation and strategy in mind; bankers made four important concessions: (1) agreed to lock up their deposits to extent of 28 per cent for country banks, 40 per cent for reserve city banks, 52 per cent for New York; (2) agreed to apply reserve requirements to 7000-8000 nonmember banks, which will decentralize funds as these banks now carry their reserves in city banks, notably in New York; (3) agreed that budget should be balanced through increased tax revenue when full economic activity is reached, and discarded pet idea that budget should be balanced by cutting farm benefits and other outlays to bone regardless of state of economic activity; (4) conceded that direct measures, such as priorities, rationing, etc., are as important as, or more important than, monetary action to deal with labor or industrial bottlenecks.

   To gain these concessions, Board could not ignore sources of some $13 billions potential additions to bank deposits and reserves in so-called presidential powers to revalue gold and silver, to issue greenbacks, and to take remaining silver seigniorage; had in mind, however, legislative program to substitute direct presidential power of initiative and veto over reserve requirements and to require open-market operations up to $3 billions, also taking bankers off directorates and abolishing System stock; these steps would give Administration greater, more direct control of credit-monetary machinery.

   Purposely avoided asking President to endorse the report so he would be in better strategic position to give up scattered powers only if broader controls are granted him over central banking mechanism. Report given to Morgenthau, who held it ten days, declined to assume any responsibility for it and made no objection to its submission, but then sniped at it at press conference and revived press reports, previously set right by Early, that Administration would fight it.

2. Wagner hearings should be kept from rambling all over lot and adding to confusion and conflict if Treasury, FDIC and System file separate answers to questionnaire and appear at hearings; this will get nowhere; to get results a legislative program must be drafted; impossible to do this jointly; seven years of attempted cooperation with Treasury proves futility of joint procedure, as they are hostile, only cooperate when it suits them (bank holding bill latest example and this matter should be part of comprehensive program, not piecemeal legislation); after President's memorandum requesting the four agencies to "make a program", the Treasury asked Board to rubber stamp their bill secretly prepared, introduced at Secretary's request by Glass, which gives FDIC supervisory powers exercised for 7 years by Board and is impracticable and punitive; President should advise Wagner to hold off until comprehensive legislative program is drafted, embracing recommendations of System plus new presidential powers, etc.

3. Reorganization bill, covering banking agencies, should be renewed, at White House request, without exemptions for any agency; this will permit President to effect unification analogous to Farm Credit Administration, consolidation of works programs and Home Loan Bank Board; duplication, confusion and conflict inevitable until bank agency reorganization effected; Board going ahead with building annex that would house these agencies; Reserve Board of seven, appointed by President, with staff, devotes full time to this field; alternative is to put it all under Treasury; politically impossible, and Secretary has neither time nor staff to deal with it.

January 27, 1941

In order to increase the public character of the Federal Reserve System as the recipient of the increased public powers envisaged in the recommendation to the Congress of January 1, 1941 and in order to provide effective administrative machinery for the supervision of the banking system the following supplementary program is submitted.

1. (a) Coincident with requiring approximately 8,000 nonmember banks to maintain their reserves with the Federal Reserve Banks, abolish and retire the stock in the Federal Reserve Banks of the approximately 6,000 member banks by paying to them the face value of the same with accrued dividends. (b) Require all banks to be insured, giving them access to all of the facilities of the System, and make them subject to System requirements. (c) Require all Federal Reserve Banks after capital funds remaining after the retirement of their stock have been doubled to pass all net earnings to the Treasury as a franchise tax. (d) Reconstitute the boards of directors of the Federal Reserve Banks to provide for a board of seven directors representative of commerce, industry, agriculture, or labor in their district, none of whom shall be an officer, director, employee, or stockholder of any bank and provide for the appointment of three of such directors by the Board of Governors and for the election of three by the banks of the district. Make the President of the bank an ex-officio member of the board and provide for his election by the other six directors for a term of three years with the approval of the Board of Governors and with the Board of Governors authorized to cast a vote in the event of a tie.

2. In connection with the proposed power to increase and decrease required bank reserves, make increase by the System subject to President's consent or veto and give President authority to increase required reserves after System in response to a request by President has failed to do so.

3. In connection with the System's responsibility in the open market; (a) Repeal provision of existing law requiring the System when it purchases Government obligations to purchase them "only in the open market"; (b) Authorize the President to direct the Federal Reserve Banks to purchase directly from the Treasury Government securities with maturities not to exceed five years and at such rates as the President may fix until total purchases under this authority reach $3,000,000,000; and (c) In extending the life of the Stabilization Fund, centralize open market responsibility by permitting the sale but not the purchase in the domestic open market of securities by the Stabilization Fund.

4. Under an extension of the Reorganization Act containing no exemptions merge all bank supervisory functions in the Board of Governors under a comprehensive plan contemplating the transfer of the functions of the board of the Federal Deposit Insurance Corporation to the Board of Governors, the abolishment of the Bureau of the Comptroller of the Currency and transfer of the supervisory functions of that office to the Board of Governors, and the transfer to the Board of Governors of other scattered functions now performed by the Reconstruction Finance Corporation and the Secretary of the Treasury.

1. Reorganization; President should request Congress to renew authority to consolidate banking agencies.

2. Wagner hearings and questionnaire; President might advise Wagner to await preparation of comprehensive bill, avoiding hearings meanwhile.

3. Banking legislation;

   (a) Give System authority to increase reserve requirements as proposed in special report.

   (b) Make reserve requirements applicable to all banks, and exempt required reserves from FDIC assessments.

   (c) Remove banker directors.

   (d) Abolish reserve bank stock.

   (e) Give President power of initiative and veto over reserve requirements, and power to require open-market operations up to $3 billions.

   (f) Agree to lapse or withdrawal of existing presidential powers only if (c), (d), and (e) are voted by Congress.

4. Comprehensive bill, embracing bank holding legislation, to be prepared under direction of Chairman of Reserve Board for Wagner to introduce, with White House approval.

The President approves:

1. Renewal of power to consolidate banking agencies, exempting none of them from bill. Plan to be worked out with Brownlow.

2. Requesting Wagner to defer hearings until comprehensive banking legislation is prepared and submitted, including bank holding provisions.

3. Recommendation, in System report, covering reserve requirements.

4. Making such requirements applicable to all banks, exempting required reserves from FDIC assessments.

5. Removing bankers from Reserve Bank directorates.

6. Abolishing Reserve Bank stock.

7. Giving President veto and initiative over reserve requirements and authority to require up to $3 billions in open-market operations.

8. Lapsing or withdrawal of existing outside powers only on condition that above program is agreed to.

9. Drafting of comprehensive bill, to be submitted for approval or given to Wagner to introduce, if not objected to -- such bill to be prepared under direction of Reserve Board Chairman.

January 27, 1941

Comment on proposal 1.

One of the most persistent charges against the System is that it is a private System owned and controlled by private bankers. This proposal would seem to eliminate even the appearance of private banker ownership and control and make the System an arm of the Government in every sense of the word. Also, by eliminating private bankers from the boards of directors of the Federal Reserve Banks it would remove valid objections of bankers to their relationships with Federal Reserve Banks being scrutinized and dealt with by competitors who happened also to be directors of their Federal Reserve Bank.

January 27, 1941

Comment on proposals 2 and 3.

The recommendations of January 1, 1941, together with these supplementary recommendations contemplate the concentration of responsibility for monetary and credit control in one authority. The desirability of so fixing responsibility would seem to be beyond debate. At the same time due recognition should be given to the principal that effective liaison and a responsive relationship between the Administration and the money system is essential. To this end and consistently with the fact that within the Executive Offices are the Director of the Budget and an Administration Assistant in the field of fiscal and monetary affairs, proposals 2 and 3 suggest vesting certain powers with the President. Thus, while at present, through the use of existing powers the President or the Secretary of the Treasury can add to reserves and offset action by the System in the other direction there are no corresponding powers to offset additions to reserves. Proposal number 2 would implement the President to act in either direction. Proposal number 3(a) would implement the System in meeting its responsibility for the Government bond market and proposal number 3(b) makes more certain that action by the System will be attuned to "the broad program of the legislative and the executive". It constitutes a more effective "gun behind the door" than does the Thomas Amendment, which would be repealed.

January 27, 1941

Comment on proposal 4.

The present Farm Credit Administration is an example of the splendid results which have been accomplished by the many desirable reorganizations, consolidations and transfers effected during this Administration. As stated at the time "The Farm Credit Administration was organized to eliminate overlapping, prevent duplication, settle conflicting jurisdictions - in short, to provide a more efficient, logical and consolidated credit service for farmers at a low cost." All of these are present in the banking field. The Order consolidated in one agency "The Farm Credit Administration - the functions of all present Federal organizations which deal primarily with agricultural credit; namely the Federal Farm Board, the Federal Farm Loan Board, the functions of the Secretary of Agriculture with respect to loans in aid of agriculture, and those of the Reconstruction Finance Corporation pertaining to the management of the Regional Agricultural Credit Corporation."

Other examples may be found in the consolidations of the various Works Programs and in the consolidations effected in the establishment of the Home Loan Bank Board. In the latter case for instance, there is now under common management the Home Owners' Loan Corporation which did the salvage work in the urban dwelling mortgage picture, the Federal Home Loan Bank Board, which supervises the Federal Home Loan banks and their members, and the Federal Savings and Loan Insurance Corporation, which insures the shares of Federal Savings and Loan Associations and other members of the Federal Home Loan Banks.

In sharp contrast, the number of Government agencies dealing with the commercial banking system has increased. The salvage job in the banking field corresponding to that done by the Home Loan Bank in the urban dwelling mortgage field was done in the first instance by the Reconstruction Finance Corporation and the function is now divided between it and the Federal Deposit Insurance Corporation. The insurance of deposits is done by the Federal Deposit Insurance Corporation and the Board of Governors supervises Federal Reserve Banks and their members.

Nor is it believed possible to work out any comprehensive and effective plan for consolidation through legislation. With so many different groups, including groups in the banking fraternity as well as groups in the various agencies, holding so many different views with respect to a solution of the problem nothing but conflict could come from an attempt to solve it by legislation.

Therefore, with the expectation that Congress will be asked to renew the power of the President to reorganize the administrative agencies of the Government and that the power will be renewed without any of the agencies being exempted, it is suggested that all of the banking supervisory functions now being exercised by the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Reconstruction Finance Corporation and the Secretary of the Treasury be consolidated in the Board of Governors under a comprehensive plan of reorganization promulgated under the Reorganization Act. While the details of the

plan cannot be worked out completely until the legislation has been enacted, the plan should contemplate the elimination of the office of the Comptroller of the Currency and the transfer of the bank supervisory functions of that office to the Board of Governors. Other functions of the office such as its currency functions, its functions relating to the supervision of credit unions, and its functions relating to the supervision of building and loan associations in the District of Columbia should be transferred to the appropriate Governmental agency. The functions of the board of directors of the Federal Deposit Insurance Corporation should be transferred to the Board of Governors. The authority of the Reconstruction Finance Corporation to subscribe to preferred stock, notes and debentures to banks or make loans to banks should be transferred to the Federal Deposit Insurance Corporation and the authority of the Secretary of the Treasury to request and the function of the President to approve purchases of preferred stock and debentures by the Reconstruction Finance Corporation should be transferred to the Federal Deposit Insurance Corporation so as to merge all of these functions completely in it. The authority of the Secretary of the Treasury to license the operation of banks should be transferred to the Board of Governors to die when the emergency is declared at an end.

GOVERNMENT SECURITY YIELDS, EXCESS RESERVES, AND BANK DEPOSITS