

February 22, 1944.

Dear Jimmy:

In accordance with our telephone discussion on Thursday, I am enclosing a one-page opinion by our General Attorney on the President's authority to consolidate bank supervisory functions and a summary of a very much simplified plan of coordination that seems to me to avoid all of the objections, certainly all the important ones, as to the more ambitious program. I am also enclosing a suggestion for a statement that might be given to the press if the President is favorable to this alternative plan.

I would greatly appreciate it if you could bring this proposal to the President's attention and I hope, of course, that you will see your way clear to giving it your approval, as otherwise I would not care to pursue the matter further.

Sincerely yours,

Honorable James F. Byrnes,
Director,
Office of War Mobilization,
The White House.

Enclosures 3

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AUTHORITY TO CONSOLIDATE BANK SUPERVISORY FUNCTIONS

A consolidation of Federal bank supervisory functions would be within the authority granted the President in the "First War Powers Act, 1941".

The authority to redistribute functions together with the limitations thereon is based on a reenactment of the Overman Act conferring like powers on President Wilson in 1918. It is significant, as a matter of legislative history of the Overman Act, that agencies, such as the Federal Trade Commission, unsuccessfully sought immunity from Congress against the exercise of the powers being conferred. This is some indication of the extent to which Congress, in the original statute, deemed functions of the various agencies to be "matters relating to the conduct of the present war" and whether a redistribution of their functions would be "for the national security and defense, * * * for the better utilization of resources and industries * * *" or otherwise within the purposes of the legislation. Of extreme significance is the fact that such an amendment to the Overman Act to grant immunity to the Federal Reserve Board was rejected by Congress. This would seem to be a pretty strong indication that the Board's functions were deemed to be within the authority then given the President.

In the last analysis, the real test of the authority depends upon the facts of the particular case. In this connection it is to be observed that the functions of the commercial banking system and their daily operations are directly related to and have an important bearing upon the conduct of the war. How they perform in the fight against inflation is of vital importance. They also perform extremely important functions as fiscal agents in the public sale and redemption of Government securities. Moreover, it is important that, on the buying side, purchases for their own account be in conformity with the Government program. They maintain a "ration banking" system upon which the Office of Price Administration must depend. They perform invaluable services in the huge disbursement of Government funds incident to the conduct of the war. Their lending operations, notably in connection with the Executive Order under which the Reserve System acts for the armed services in the guarantee of loans, are vital to industrial and agricultural production for war. It is essential that all of these operations, so directly related to the war effort, be effectively carried out and the more effectively and intelligently the banks are supervised, the more effectively will this be done. This is most important in war time.

In addition to the foregoing, it is a fact that consolidation and coordination of the supervisory functions will result in substantial savings in manpower and money.

2/19/44