

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**Office Correspondence**Date June 7, 1940.To Chairman Eccles

Subject: _____

From Mr. Draper

Dear Marriner:

Because of your recent conversations about the need of some emergency legislation in behalf of the Federal Reserve, I have been spending a good deal of time thinking of this problem. With the aid of the legal department, which submitted a memorandum on this subject to all of us some days ago, there is outlined herewith 6 steps that might be taken by Presidential proclamation, and 15 steps that might be taken by legislation. Of course, this program will be subject to attack from various viewpoints, but I am anxious to submit it in order to help in bringing this problem into focus as soon as possible. It might be that we shall have an opportunity to secure emergency legislation within the next 90 days. If that is so, it seems to me that we ought to be working out a definite program right now.

The accompanying memorandum has not been discussed with or shown to anyone except a few individuals in the legal department.

E. C. D.


POSSIBLE STEPS TO "STREAM-LINE" FEDERAL SUPERVISION
OF BANKING AND CREDIT IN AN EMERGENCY

The following is a list of actions which could be taken in an emergency to strengthen, coordinate and increase the efficiency of Federal supervision of banking and credit. It is not intended as an outline of legislation which should result from a comprehensive study of existing banking laws. Some of these steps could be taken immediately by Presidential proclamation under section 5(b) of the Trading with the Enemy Act, some could be taken under the Reorganization Act after 60 days' notice to Congress while in session, and some would require legislation. In case of a sudden emergency, it might be best to take immediate action by Presidential proclamation and have this confirmed and supplemented by emergency legislation. If the circumstances did not require immediate action, however, it might be best to include the entire program in emergency legislation and not resort to any Presidential proclamation. Since emergency legislation could be enacted as quickly as a reorganization order could be put into effect, actions which could be taken under reorganization orders are grouped with legislative actions.

By Presidential Proclamation

1. Amend bank holiday proclamations so as to cover nonmember as well as member banks and transfer power to license banks from Secretary of Treasury to Board of Governors or Federal Reserve Banks.
2. License nonmember banks to do business only on condition that they comply with same regulations and restrictions as are applicable to member banks except minimum capital requirements and requirement that they remit at par for checks drawn on them.
3. Forbid any bank (member or nonmember) to receive any deposit or make any payment unless it has on deposit with the Federal Reserve Bank a balance equal to a percentage of its own deposit liabilities prescribed by Board of Governors, thus giving the Board complete control over excess reserves.
4. Forbid any bank except a Federal Reserve Bank to receive or hold any deposits from foreign governments or foreign central banks, except to extent permitted by Board of Governors.
5. Require Treasury Department and all Government owned or controlled corporations to deposit all of their funds in Federal Reserve Banks, except to extent permitted by Board of Governors.
6. Transfer administration of recent proclamations freezing Norwegian, Danish, Dutch and Belgian funds from Treasury to Federal Reserve Banks under general supervision of Board of Governors. 2.

By Legislation

1. Make credit facilities and other benefits of Federal Reserve System now enjoyed by member banks available to all insured banks and re-

quire them to maintain same reserves and comply with same regulations and restrictions as member banks, except minimum capital requirements and requirement that they remit at par for checks drawn on them.

2. Authorize Board of Governors to waive compliance with restrictive provisions of laws applicable to banks when it is in the public interest to do so or when necessary to prevent hardships.

3. Transfer Bureau of Comptroller of Currency from Treasury Department to Board of Governors, thus making it a division of Board's staff, and have the Comptroller appointed by Board of Governors.

4. Transfer all powers of F.D.I.C. to Board of Governors with authority to delegate execution of such powers to an Administrator appointed by the Board, thus making F.D.I.C. a division of Board's staff.

5. Transfer power to purchase banks' preferred stock from R.F.C. (and Treasury) to Federal Deposit Insurance Administrator appointed by the Board, thus concentrating in one agency power to rehabilitate banks by making emergency loans or by purchasing their assets or preferred stock.

6. Authorize Board of Governors to consolidate functions of bank examinations now performed by Comptroller, F.D.I.C., and Federal Reserve System and have them administered at Reserve Banks in accordance with general policies promulgated by Board of Governors.

7. Authorize Board of Governors to decentralize administration of powers now possessed by the Board, the Comptroller and the F.D.I.C. relating to individual banking institutions, such as granting charters, trust powers and branches, appointing conservators and receivers, liquidating insolvent banks, etc., and have them administered at Reserve Banks in accordance with general policies promulgated by Board of Governors.

8. Transfer functions of Federal Open Market Committee to Board of Governors and abolish the Committee.

9. Change composition of Federal Advisory Council so as to consist of the Presidents of the 12 Federal Reserve Banks.

10. Transfer to Board of Governors power of Secretary of the Treasury with respect to Stabilization Fund.

11. Liberalize the Board's powers to increase reserve requirements by removing limitations in existing law and authorizing separate requirements as to reserves against deposits of foreign funds.

12. Restore power of Federal Reserve Banks to buy and hold gold and use it as reserve and as collateral for Federal Reserve notes, thus eliminating unnecessary steps involved in purchase of gold by Treasury, payment therefor by drafts on Reserve Banks, issuance of gold certificates, and deposit of same in Reserve Banks to replenish balance.

13. Make permanent power of Reserve Banks to pledge Government securities as collateral for Federal Reserve notes.

14. Authorize Federal Reserve Banks to purchase Treasury bills direct from Treasury.

15. Separate functions of Chairmen and Federal Reserve Agents.