White House 1/1/41

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.

JPD:ebb

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.

JPD:ebb

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.

JPD:ebb

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.

JPD:ebb