White House
1/29/41

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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.

Thurston

White House
1/29/41

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.

White House
1/1/41

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.