

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 2, 1938To Chairman Eccles

Subject: _____

From Ronald RansomC o n f i d e n t i a l

Before you left for Florida, you suggested that you would like to have Messrs. Thurston, Morrill, Wyatt, and Goldenweiser, take the memorandum you gave us on the subject of a comprehensive banking program and review this and give you their views as to the suggestions you made with such changes as they might think desirable.

Since your absence, they have been in almost daily session on this. Mr. Wyatt has had a bill drafted, which would cover your suggestions.

They have also submitted an outline, which you will find attached, and a more detailed memorandum covering their views.

I am submitting all of this to you without comment at the present time. There are comments I would like to make regarding your suggestions, as well as their suggestions, but all of this should be helpful in enabling the Board at some future time to think this thing through to a conclusion.

I want to say that I think these gentlemen have done excellent work and, while again saying that I am not fully in agreement with them, their views are suggestive and helpful and merit consideration and further study.



April 1, 1938.

Memorandum to Mr. Ransom:

In accordance with your request, there is submitted herewith an outline of a banking program. In some respects this program departs from the tentative proposals of March 7 and in such cases alternative proposals are offered which are intended to achieve the same objectives in a more satisfactory way. These proposals have been drafted without regard to the pending Reorganization Bill.

It is proposed that all insured banks be entitled to credit and other facilities of the Federal Reserve System, and in return, they be required to carry reserves with Federal Reserve banks and to comply with other System regulations, except those relating to admission to and withdrawal from the System, minimum capital requirements and, as to small banks, par clearance. This would in effect do away with member banks as a separate class and would place all insured banks on the same basis without invading States' rights. This would appear to be a more constructive and practicable step toward unification of banking than by attempting to move up from July 1, 1942 to 1939 the time when all insured banks having deposits of \$1,000,000 or more would be required to become members.

This plan would not apply to uninsured banks, but they are a relatively small part of the total. It would seem reasonable to require that all banks which have the benefits of insurance be required to comply with the reserve requirements and such other regulations as Congress

considers necessary in the interest of sound banking. There is no invasion of States' rights involved in such a proposal.

The plan also contemplates that there shall be a decentralization of administrative functions affecting the twelve districts by authorizing the Board to assign some of its duties and indicating that these functions be performed at the respective Reserve banks. Examination and all supervisory powers, both of the F.D.I.C. and of the Comptroller's Office, would be transferred to the Board with authority to decentralize administration.

While no alternative is suggested for the plan for the interlocking directorates of the Reserve Board and the F.D.I.C., it is recognized that ex officio membership has not proved satisfactory in the past. If all insured banks are to have the same rights and obligations, there will be less occasion for this interlocking directorate. If the distinction between member banks and other insured banks is preserved, then the plan may be an acceptable compromise.

With reference to the problem of stock ownership, it is believed that ownership by individual members of the public, which would constitute private and not public ownership, would not meet the criticisms by the System's opponents. This would result in creating a private body of stockholders who would consider themselves concerned in the System's earnings and expenses and would be difficult to educate to an understanding of operations conducted in the public interest rather than on a

commercial basis. Instead, it is proposed to repay the stock of the member banks and to share earnings with the Government; at first by giving it 25 percent of net earnings, and after an amount equal to the present capital has been added to surplus, 50 percent. This would go far to meet the feeling in Congress that System profits should go to the Government.

As to directors of Federal Reserve banks, it is proposed that the number shall remain at nine, the same as at present, but that four shall be chosen by the Reserve Board, four by member banks, divided into four classifications according to their capital, and the ninth by the F.D.I.C. The directors shall not be bankers, shall be engaged in agricultural, commercial, or industrial pursuits, and shall not serve more than two full terms in succession. This plan seems more practicable and logical than to attempt to devise some mechanism for electing a representative of State supervisory authorities as the ninth director. It is proposed that any one of the nine directors may be designated by the Reserve Board as Chairman, another as Deputy Chairman, and that someone else who may or may not be a director may be designated as Agent.

The Reserve Board would consist of seven members, six of whom would be appointed for twelve-year terms, and the seventh would be the Chairman of the F.D.I.C., as an ex officio member. It is proposed that the Chairman of the Board, who would succeed the Comptroller of the Currency as an ex officio member of the F.D.I.C., shall be selected re-

gardless of districts and that he shall serve as chairman at the pleasure of the President, as was the case prior to 1935. It would be unwise to ask Congress to exempt only the Chairman, the most powerful member of the Board, from the existing provision restricting employment with a member bank. These provisions represent an attempt by Congress to prevent abuses by Board members, while in office, with a view to receiving favors from member banks later. The provisions are illogical and ineffective to prevent abuse by undesirable members and are, of course, unnecessary for high-minded members. Removal of the restrictions for all members would be desirable, but difficult. As the law now stands, the Chairman remains in office until his successor is appointed, so that the President already has it in his power to retain the Chairman until January, 1941, when the President's term ends.

With regard to the question of a mandate, for which the sentiment in Congress appears to be widespread, it is felt that, if a mandate is considered essential, it should embody substantially the views laid down in the Board's statement of monetary objectives, and should be directed to the Government as a whole.

As to the Advisory Council, the choice is either to abolish it outright or to retain it as it is, recognizing that it has some advantages, and that with the proposed change in Federal Reserve bank

directorships the personnel of the Advisory Council might become more representative of the public interest.

With regard to exchange charges, it is proposed that existing banks with deposits of less than \$1,000,000 located in any place of 2500 population or less, in which there is now a non-par bank, may continue to charge exchange, in remitting for checks drawn upon themselves, and that the same privilege would be accorded up to 1941 to competing banks in such places as are not now on the par list. All insured banks would be permitted to absorb exchange charges on checks drawn upon such banks.

Eligibility provisions should be stricken from the act, and the penalty rate on advances secured by paper which is now ineligible should be removed.