



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 12, 1936.

Dear Governor:

VERY CONFIDENTIAL

I am writing this in case I do not have the opportunity to present my views verbally to you on the Board-Treasury crisis. I pointed out the danger of laying down conditions for the acceptance of the Treasury's proposal both to Mr. Goldenweiser and Mr. Thurston before your meeting with the Secretary on Thursday. I now feel even more strongly that a breach with the Treasury at this time would be most unfortunate. I am convinced that it would cause irreparable harm to the broad program we believe in and are working for.

The issues, as I see them, are these. You would not have taken such a strong stand, even going to the extent of laying down conditions for the Treasury doing what it has a perfect legal right to do, unless you conceived that more was at stake than just the sterilization of further inflows of gold. I assume that you feel the prerogatives of the Board are involved and that, as Chairman of the Board, you must defend its interests. This raises the whole question of the functions of the Board and its relation to the Government in general and the Treasury in particular, - a question that ought to be explored carefully before we raise a fundamental issue on any particular point.

As I see it, and I know this to be your view, the problem of economic stability can only be solved by a broad attack on a wide front. Monetary control alone will not suffice. We must have a proper tax policy and proper social security program, and a flexible public spending program, in all of which things the Treasury has a decisive voice. The cooperation of the Treasury, in other words, must be the cornerstone of our policy if it is to have any chance of success, even if we possessed all the monetary powers.

The present division of monetary powers admittedly leaves much to be desired. I am not sure, however, what the alternatives are. There is no such thing as an economic division between the "external dollar" and the "internal dollar". Action taken in connection with gold flows affects the domestic situation and independent action on our part affects gold flows. Unless, therefore, we have all powers relating to gold and silver, the stabilization fund, the size of the Government balance in the reserve banks, etc., the division of authority

will remain. Frankly, I do not think we have any chance of getting all these powers under the present setup. The President has authority to fix the weight of the gold dollar, "to stabilize domestic prices...". In connection with the stabilization fund an amendment to restrict the purpose to stabilize the foreign exchange value of the dollar was voted down and it was left as the exchange value. I am perfectly sure that the President would not agree to transfer these powers to the Board. In practically all countries they are regarded as matters over which the administration must maintain full control. In England the Fund regularly sterilizes and offsets gold flows.

Perhaps the alternatives are, on the one hand, a Federal Monetary Authority which is politically responsible and which would exercise all monetary power or, on the other, a continuation of the present setup. From our point of view, the division of monetary authority is not as serious as it might be, since cooperation is in any case necessary for the successful prosecution of our whole program. It may even prove from a wider point of view to be advantageous. The more concern and responsibility the Treasury has for monetary control, the better chance we will have to interest it in the spending and taxing aspects of the problem of business stability. We would not, in other words, be content to take a narrow legalistic view and be satisfied that we had followed the right monetary policy even if the country does go to smash. We are, rather, concerned with the right policy to be followed all along the line.

What I am attempting to say is that in case of conflict I think our obligation to the public interest comes ahead of our obligation to the Board, and that is the real situation confronting us.

You may think that this particular incident hardly justifies this attitude. I cannot help feeling, however, how it must appear to the Secretary. He is a person intensely loyal to the President and extremely jealous of the prerogatives of his office. Given this background, this is how it must appear to him:

Under considerable pressure he agrees to cooperate with us. Shortly after this he contemplates an action which is legally within his province. He consults you. You give tentative approval and then two days later not only urge postponement, which is proper, but you go on to question his right to exercise this power and (I am still trying to put myself in his position) his ability and public-spiritedness. This is how I think he will interpret your condition that the action be purely automatic and not discretionary. It is just as though we consulted him on the advisability of our sterilizing further inflows of gold and he laid down the condition that our action be purely automatic and that we should use no discretion. Furthermore, he will interpret your remarks re. issuing debentures as evidence of a desire on your part to handle the

whole matter of excess reserves on your own and thus shut him out.

In view of the important issues at stake I should like to suggest something which I know will be unpalatable to you. I trust you will forgive my presumption in suggesting it. It is this. Make overtures to the Secretary. Tell him that you hope he will not misinterpret your memo; that it was worded for the sake of the record and in view of your own position on the Board; that you do not question his authority, ability or disinterestedness in connection with monetary control; and that your only wish is that action be postponed until possible Board action re reserve requirements and Congressional action re capital inflows are first disposed of. (If we can devise a really effective means of checking capital inflows there may be no occasion for sterilizing further gold inflows).

I know you to be one of the most disinterested people I have ever met. I know that you put ideas and objectives above personalities. I know you are in Washington today not for the purpose of enhancing the authority of your office for its own sake, but because you feel that you can make a contribution to the most pressing problem of our day. Since the contribution you can make rests in the final analysis on the degree of cooperation you can obtain from the Secretary, I think you will be prepared to make real sacrifices for the sake of your wider objectives. It is this knowledge that has emboldened me to express myself so strongly and to run the risk of incurring your displeasure.

Very sincerely,

