

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 27, 1939.

To Members of the Board

Subject: _____

From Mr. Thurston

The Chairman was so favorably impressed by the attached speech which Mr. Nardin gave before the Arkansas Bankers that he asked to have it circulated so that you might have an opportunity to read it in full.


Attachment.

Gov. Ransom ✓

Gov. Szymczak ✓

Gov. Davis ✓

Gov. McKee ✓

Gov. Draper ✓

(Please return to Mr. Thurston)

WHERE DO WE GO FROM HERE?

Address delivered by Wm. T. Nardin, Chairman of the Board of the Federal Reserve Bank of St. Louis, at the Annual Convention of the Arkansas Bankers' Association in Little Rock, Tuesday morning, May 23, 1939. (For release after that time.)

After nine and a half years of depression, with the end not yet in sight, there can be no doubt of the propriety of the inquiry on the part of any group of thoughtful and responsible men as to where we go from here. The case may be even more strongly stated. It may well be said that failure to make such inquiry, deeply, thoughtfully and most sincerely, wherever business men or bankers are gathered together, is to fail signally, even tragically, to meet the responsibility which our position in the financial and industrial world imposes upon us.

Nine years ago the question was being very confidently answered. Men in most prominent positions in business, in finance and in Government were telling us that a return to the prosperity which we had lately enjoyed was just around the corner and the reason for their conclusion was given with as much confidence as characterized their prediction. Cheap and abundant credit was available, so the reasoning ran, and from cheap and abundant credit business progress had always come, so come it must again. Through all the nine weary years we have had cheap and abundant credit--save for a short period when public confidence in our financial institutions was shaken--yet business still limps sadly and some millions of men are still out of employment.

We should, nine years ago, have noted the fact that in all of our previous depressions, when easy credit had cured our ailment, inadequate credit had caused the ailment. We should have realized that there was no such cause in 1929 and that for a new illness old remedies could not be relied upon. Surely all of us should realize now the faulty reasoning in which we indulged nine years ago. But we seem to be failing even in that. There is even now, from time to time, some scolding of bankers because they don't "loosen up" on loans. And here a new fallacy is disclosed. Against all of our previous experience and against all rules of prudence growing out of our experience, the reasoning seems to run that bankers could restore prosperity, or contribute greatly to it, by loaning their depositors' money to those who can show no reasonable probability of ability to pay the loans. Thus are we now committing the double fault of proposing to apply an old remedy to a new ailment, having first adulterated the prescription with a poison which in the past has occasioned much sickness and pain in our industrial and financial system.

But our so-called leaders in finance and industry and economics and Government have in later years not been so much of one mind as they were nine years ago. While some still entertain the idea that financial panaceas will cure our ills, other theories have been conceived. It was at one time asserted with great confidence that if the strong arm of the Federal Government would prime the industrial pump, business would go forward and we should soon have complete recovery. With equal confidence, and almost simultaneously, the theory was advanced that sweeping reforms in industrial and financial practices must be instituted before business could go forward. And those who have held and still hold to the pump-priming theory, with a good deal of logic urge that the success of the pump-priming method was defeated by the reform activity which seemed to threaten destruction of those who, once the pump was primed, would have to operate it.

While these conflicting theories were more or less simultaneously put into practice, in somewhat natural, though illogical, course of development the clamor arose for the abandonment of all such effort and for adoption of the policy of allowing so-called natural forces to operate. Stop spending, abandon reforms, balance national budget, let us alone and we will recover from what ails us, has been

the cry of an ever-increasing number of those of us who are responsible for the conduct of the business and financial activity of what we call private enterprise.

And so, after nine and a half years we still find ourselves in pretty deep distress in spite of easy credit, in spite of--or, if you like, because of--pump priming, reform legislation and the desire to go back to the good old days of rugged individualism and so-called free private enterprise. Surely such an experience justifies, indeed demands, serious inquiry as to where we go from here. Do we go on floundering in our present distressful conditions? Do we sink into deeper distress? Or do we do something more constructive and more effective than has so far been done to promote return to the state of prosperity which we once enjoyed?

Has not the experience of the last nine and a half years demonstrated the futility of past methods? Easy credit or cheap money has not rescued us. Priming the pump has been so slow of accomplishment as to threaten us with exhaustion of our pump-priming material before the life-saving flow from the pump is started. Whether attempted reforms by statutory enactment have prevented our recovery, as may with some force be contended, it is surely true that such reform measures have not cured our ills.

It is true that the method which finds most favor in the business and financial world has not yet been tried. It is with much assurance often declared that if such method, the let-us-alone method, had been adopted nine years ago we should long since have had complete recovery. The most obvious reply to that contention is that it is not susceptible of proof. It is supported only by the opinion of those who make the declaration and a contrary conclusion can be equally well supported by equally positive opinion.

But there are some other weak points in the let-us-alone method. Predicated as it is on the stop-spending, balance-the-budget foundation, it meets stubborn opposition with the question whether the people who have been kept alive by Government expenditure should have been allowed to starve, or should now be allowed to starve, in order that the budget may be balanced. That question can hardly be answered in the affirmative by any thoughtful man. Nor can the apostles of this creed reply that the budget should be balanced through increase of taxes since they loudly contend that the present heavy burden of taxes is one of the great deterrents of business recovery.

Still further difficulty stands in the way of the advocates of the let-us-alone-to-recover method. We were free from the reforms and restrictions of which we now complain when we fell from the pinnacle of blooming industrial health and vigor to the rickety condition in which we now find ourselves. It requires a high degree of blind faith to lead one to accept the contention that the prescription which failed to prevent a bad case of rickets will cure the disease after it has developed to a chronic state.

And one more stubborn fact stands in the way of acceptance of this prescription for recovery. It is not a new phenomenon for men to desire a return to the "good old times." But the world does not return. And, unfortunately, for those of us who denounce reforms and would go back to the old times, we do not have such a record as would justify the world in following us back. We have too often in the past denounced and opposed Government action designed to correct faults for which we were responsible. Half a century ago the business and financial world opposed the enactment of the Sherman anti-trust law. It may be strongly contended that that law is now outmoded, but no intelligent man would contend that we should go back to the practices which the law was designed to correct. The business world generally opposed the establishment of the Interstate Commerce

Commission and while there are still those who are critical of that institution, no sane business man would favor a return to the bad practices which provoked the establishment of the Commission. We opposed the act creating the Federal Trade Commission, but in recent years many of us have pointed to that Commission as a sound corrective agency when we opposed newer agencies of reform. The banking and business world opposed the establishment of the Federal Reserve System, but who among thoughtful men would say that we could have lived without it during the quarter century of its existence. One of the latest acts to which we made violent opposition is the Securities and Exchange Act, though the ailments from which we now suffer were precipitated upon us by shocking abuses which that act was designed to correct.

That is a record of unwise opposition to Government attempt to correct bad practices in the business world, which does us no credit. It is a bad platform from which to make an appeal for a return to good old times.

If that review of past errors on the part of the business and financial world had no purpose except the recital of faults, it were little justified. The review is not made here for that purpose. I note the record because of my conviction that it has profound bearing on the question "Where do we go from here?" It demonstrates conclusively, I think, that the only method which we have proposed for the cure of our present ills is futile in two fundamental respects: it will not be adopted and it would tragically fail if it were tried.

But those are not the worst of its faults. The worst feature of our policy of opposition and complaint is that it has aggravated among us the psychology of fear and discouragement; it has biased our thinking; it has prevented our attempting to do things needing to be done which only we can do.

I pause here to refute a conclusion which my remarks might provoke. I am holding no brief in defense of crack-pot men or measures. I neither applaud nor approve the political ambition once expressed as the purpose to progress from the position of match to that of master of business men. I have no patience with the theory that the welfare of the masses of the people can be promoted by the distribution of present wealth rather than by the promotion of the production of new wealth. I do hold the conviction that we have allowed ourselves to be so far paralyzed with our protest and complaint and impatience as not to have been able to do the clear and constructive thinking which could and should have been done to the end of designing and proposing a more constructive program for the recovery from our present ills, and the prevention of their recurrence, than the futile clamor to be allowed to go back to the good old times.

And that is not to give the slightest credence to the sometimes-made and too-widely-accepted charge that the financial and industrial interests of the country have gone on a strike against business recovery in order to discredit Government efforts. Only ignorance, or prejudice, or confused habit of thinking could lead anyone to such an absurd conclusion.

I have heretofore said that our attitude of protest and complaint and impatience has prevented our attempting to do things needing to be done, which only we can do. Let us look for a moment at that assertion. In our great period of industrial prosperity we built an industrial machine which was the marvel and the object of envy of all the world. We, the industrial and financial engineers of the country, built it. We built it and ran it. We brought to more and more of the masses of the people more and more of the articles which contribute to comfort, convenience and happiness of the people. That was not the accomplishment of Government officials, or theoretical economists, or bright young men

and women whose heads are full of social theories. It was our accomplishment.

And then nine and a half years ago the machine broke down. During those nine and a half years we have failed in the accomplishment of which we once proudly boasted. We have not during that period brought more and more of those articles of comfort and convenience and happiness to more and more of the people. On the contrary, millions fewer people have those articles now than had them nine years ago. We cannot say that Government officials, or theoretical economists, or the bright young men and women social theorists caused the breakdown. The machine broke down in our hands, under our control. We take credit for the accomplishment of the industrial machine when it was running well. Can we deny responsibility for its failure when it broke down? If we claim the credit we must accept the debit.

Who should be best able to repair the machine and put it in good running order again? Obviously those who built it and were running it! Why haven't we done so? The answer quickly comes: "Because they wouldn't let us! Because of their interference with us! If they had let us alone we'd have had it running long ago!" Aside from the fact that the last assertion is one which we cannot prove--which cannot be proved--the other fact should not be overlooked, that the time came pretty early in our distress when we had to recognize the need for help from the Government. When millions of people had been out of work so long that their savings were exhausted, when we had not started the wheels of our industrial machine so as to give these millions a chance to earn a living, we welcomed the intervention of the Government to relieve them from the alternative of starving or stealing.

Can we not all remember the time when there was widespread, if not quite unanimous, endorsement of the passage of the National Industrial Recovery Act? Did not one of the greatest of our industrial-commercial organizations at one time make some claim to having originated the idea on which that act was based? Can we quite fairly damn the Government for having against our wishes, and wholly voluntarily, butted into the problem of repairing our broken-down machine? Can we fairly justify ourselves for having so swiftly and so viciously turned from welcome of Government action for the relief of the distress which our crippled machine had caused, to condemnation of the Government method and failure?

How could we expect Government officials and theorists to repair the machine which they did not construct and had never run? How can we justify ourselves for having been so soon obsessed by our protest and condemnation as to abandon all concerted, constructive effort to find the way for ourselves or, through cooperation with the Government, to put our machine again into efficient and effective operation?

But it may be thought that this indictment is too strong. Let's look at that. Within eighteen months after the enactment of the National Industrial Recovery Act, the great organization which claimed participation, at least, in its parentage, devoted its annual meeting almost exclusively to condemnation of Government activity. Another of our great industrial organizations in annual convention made the chief theme of the meeting a demand for repeal of that act, and that "natural economic laws" be allowed to assert themselves and cure our ills.

What industrial or commercial or financial organization in America has, even to this sad day, proposed a constructive program, for private industry alone or in cooperation with the Government, for the cure of what ails us? Let your memory run over the years to see what you can discover other than protest and condemnation of Government activity. Is not the let-us-alone, go-back-to-the-good-old-days policy about all you can find?

There has been one piece of activity entitled to notice for such credit as it may deserve. The National Association of Manufacturers during the last two years has conducted an extensive campaign designed to portray to the public the accomplishment of industry in the past. It paints a beautiful picture. Most conspicuously and significantly, however, the picture of accomplishment ends with the tragic year 1929. It carries to the future only in theoretical possibilities contingent on private industry being allowed to go its unfettered way to possible accomplishment. Find in it, if you can, any suggestion of method for the prevention of such breakdown as we had in 1929--any program of recovery other than let us alone.

But all of these remarks may be regarded as mere scolding. It may be conceded that there is little more justification for complaining of what has not been done than of what has been done unless there be suggestion of what should be done. I shall attempt to avoid that fault, at the same time attempt to avoid the greater fault of pretending to possess the ability to conceive a sure panacea which will quickly cure our ills. I know that I possess no such ability. Panaceas have been so often offered and have so often failed as to demonstrate the futility of such procedure. I write no specific prescription. But this I do suggest: Wherever business men and bankers are gathered together, they should earnestly take stock of our problems and consider how they may be solved, rather than, as has been so often done, give chief attention to what the Government is doing to the end only of discovering in what terms it may be most eloquently damned.

Instead of pining for the good old times; instead of assuming that what once caused depressions still causes them--that what once cured them will still cure them, even though the cause may now be different, wouldn't it be well for us to give more careful thought than has as yet been given to the question of how much the world has changed since other panics were caused and cured? It might be discovered that under our present industrial organization it may be dangerous for so complicated and ponderous a machine to be allowed to run at so reckless a rate of speed as our wholly unrestrained rugged individualism is capable of generating suddenly. We might discover that safer, more orderly and more wholesome progress could probably be made through the years if there were a governor on the engine.

And in this connection we might get some light on the need for a governor on the engine to the end of preventing the wreck of the machine with consequent depressions, if we gave very serious and thoughtful attention to some very definite and pertinent facts which are likely to influence the progress of our recovery from depressions. I venture to suggest an example. It is true, I think, that more people were thrown out of employment in industrial enterprise in our present great depression than were engaged in all industrial enterprise two generations ago. More pertinent and significant still is the fact that a very great proportion of those people was engaged, directly and indirectly, in the production and distribution of articles which were wholly unknown two generations ago. And by the same token stern necessity did not compel the resumption of buying of those articles within a few months at such a rate as to restore our industrial production to normal volume and bring back full employment of labor and full purchasing power.

We have had much talk from economists, industrialists and theorists about how the reduction of inventories and the expenditure of millions of Government money on WPA and other projects would start the wheels of industry turning and bring about business revival. That such activity is helpful in relieving distress none can deny. But that it can carry us far toward prosperity no one who properly analyzes the situation can believe. The wage of the WPA worker is a bare subsistence wage. In many communities the pressure is strong, and not wholly without

reason, to have WPA incomes supplemented by public relief. The income of these workers, at best, enables them to purchase only food, fuel, shelter and the bare necessities in clothing. It does not give them the ability to purchase those articles of modern comfort and convenience, in the production of which so great a part of our modern industry is normally engaged.

It is indeed a changed world in which we now live. It is obviously futile for us to let our thinking on its problems run in old grooves, or to attempt to solve the problems by old methods. Sound reason suggests that. Nine years of tragic experience proves it.

May we not in such a changed world, instead of damning the Government for the improvident granting of relief, for priming of the pump and failing to balance the budget, better be giving our attention to what needs to be done to prevent such catastrophe as came upon us out of our world of no relief, no pump priming and a well-balanced budget in 1929? Might we not temper our horror of regimentation if we faced that question and inquired calmly and sanely and seriously whether some modification of our one-time practice of rugged individualism in our industrial and financial activity may not now be needed to rescue us and protect us from such disaster?

Can we safely subscribe to a policy of rugged individualism when one segment of our complicated industrial-financial mechanism may throw the whole machine out of adjustment and balance, with such tragic consequences as resulted from the rugged individualism in the stock market operations culminating in 1929? Can we safely rely on the so-called natural laws of economics to cure our ills when it is obvious that the free operation of those laws would reduce 40% of our population to the standard of living of half a century ago, a sure result of the abandonment of our agriculture to the unrestricted operation of the law of supply and demand?

These questions we need seriously to ponder upon. Before we condemn the Government for measures adopted, we need to face the necessity for some measures and be prepared to offer more effective measures than those now in use. Before we damn all Government regulation by use of the prejudicial term "regimentation," we need to inquire most earnestly and seriously whether we can survive and prosper without the prevention of such practices as destroy our prosperity. If we can ourselves prevent them, we should be letting the public know that we can and how we are going to do it. If we need the cooperation or sanction of the Government in order to prevent them, we should be proposing the policy which we need to have the Government adopt. If we would avoid Government regulation, we need to show how we are going to regulate ourselves.

Mr. Alfred P. Sloan, Chairman of the Board of General Motors, was recently quoted in the New York Times as saying, after admitting that he was one of the severest critics of the New Deal:

"Industry has changed. It is still changing. It must still further expand its horizon of thinking and action. It must assume the role of an enlightened industrial statesmanship. To the extent that it accepts its broadened responsibilities, to that degree will it assure the maintenance of private enterprise, and with it the exercise of free initiative."

We do indeed need in industry an enlightened industrial statesmanship--
a statesmanship which will take the lead in bringing about the recognition by all

industry of the obligation, upon industry primarily, not primarily upon the Government, to conduct our industrial affairs in such manner as to produce continuously ever more and more of the articles of necessity, convenience and happiness for more and more of the people; recognizing also the obligation to see that more and more of the people are able to secure more and more of these articles through such continuous employment of labor, with such fair participation in the sum total of production as will bring to labor as well as to capital benefit from the increased efficiency of our industrial activity.

It will not be sufficient for the future that we depend on the haphazard chance of industrial progress to bring about this good result. We have in the past depended upon such chance, with some degree of success. We did under that haphazard system achieve our much-vaunted high standard of living. But for nine and a half years it has not worked. Our standard of living has not gone up during that time. It has gone down--tragically down, though the Government has spent many thousands of millions of dollars to help hold it up. Isn't it time for us to quit boasting of the accomplishment in the past of a system that has had such a long period of tragic failure? Isn't it time for us to realize that something new and different needs to be done to help us to recover from our present ills and to prevent a recurrence of conditions from which we have found it so desperately difficult to escape?

Isn't it high time that we realized that it is up to us to find the way to recovery? The more loudly and unanimously industrialists and bankers charge failure by the Government to lead us to recovery, the more conclusively they place upon themselves the obligation to find the way and to follow it. We say that Government spending has failed. Let that be conceded. What are we going to do to bring about what the Government has failed to accomplish? Is it sufficient for us to stop with the loose thinking and careless speaking which finds its most perfect example in that declaration often heard from industrialists and bankers: "No people ever spent their way out of a depression." That declaration has the fundamental fault of not being true. The stubborn fact is that no people ever got out of a depression in any other way than by spending their way out.

Those of us who remember or have read of the activity of such empire builders as Harriman and Hill know how much they contributed to recovery from depressions by their consistent spending in periods of depression. It is entirely appropriate to pause here to note that some men are following that policy now. You in this state are fortunate in having a conspicuous example of that type of enlightened industrial statesmanship in your distinguished citizen, Mr. Harvey C. Couch. You know how steadfastly he has refused to allow Government activity to paralyze his initiative and progress. He has gone forward in an industry where protest and complaint have been most widespread, where Government activity has perhaps been more threatening than in any other industry. It is a privilege to pay tribute here before his neighbors and friends to the intelligence and the courage with which he has carried on his activities through trying times. May his tribe increase!

But while some men are talking of enlightened industrial statesmanship, while some men are practicing it in their own industries, there is no concerted thought or action directed to the formation of a plan for all industry. Can Mr. Sloan protect his company from the blight of unemployment by his own policy of "no payless paydays" if others in his great industry so conduct their activities as to throw upon their thousands of employees the misfortune of long periods in which there would be no employment and no pay? Could the automobile industry alone, great as it is, protect itself by a policy of no payless paydays if other industries poured into the ranks of unemployment millions of men?

Isn't it too obvious to be subject to question that in our present complicated and interdependent industrial system we need a plan and system which will recognize the obligation of industry as a whole not only to give employment to men and women, but to keep them employed? The business world has pretty generally condemned the activity of Government in undertaking to provide unemployment insurance. Having seen the devastatingly demoralizing result of nine and a half years of unemployment for millions of people, how can we condemn Government action designed to mitigate such distress unless we undertake to provide a better plan for the protection of those who depend upon us for the opportunity to earn a living?

To the great question of how our activity can be planned so as to avoid the tragic condition of our recent years, no adequate attention has been given by those upon whom most heavily rests the obligation to make such plans--by those who are most capable and best qualified to do such planning. Instead of giving attention to it calmly, sanely and seriously, we have let ourselves be thrown into a phobia against the very term planning. "Planned economy" is the red rag to which our reaction has been in all respects similar to that of the angry bull. We have blindly charged the idea of planned economy during a nine-year-long condition in which nothing else has been so clear as that we must have some planning in our industrial order if that order is to survive.

Do not make the mistake of interpreting that declaration as a pronouncement in favor of a Governmentally planned economy. It is no such declaration. It is quite the contrary. It is a declaration in favor of an industrially planned economy by those who are responsible for what we call our private economy--not for the benefit of industrialists alone but for the promotion of the prosperity of all of the people. It is a plea for a planning of our economy, by those who can plan it if they will, in full recognition of the clear obligation of industry to produce constantly more and more of the commodities, appliances and conveniences which people need for their comfort and happiness, providing at the same time continuous employment for all of the people at such wage as will enable more and more of them to secure more and more of the things they desire.

That is the planning which must be done by industry and finance if our industrial order is to survive. It is futile for us to proclaim our industrial system as the best in the world; futile for us to boast of its accomplishment in producing in the past the highest standard of living in the world. That will not preserve the system unless we find the way to prevent the recurrence of more-than-nine-year-long periods of unemployment, distress and despair for millions of people. If the system is to be preserved we must find the way to secure orderly and continuous operation of industry and employment of labor. The way will not be found by politicians pandering for votes. It will not be found by well-intentioned but inexperienced theorists. If it is to be found at all it must be found by the careful study and diligent search of those who have built our industrial machine and who ought to be able to find the way to make it work, not by fits and starts, but efficiently and continuously.

Of this we may be sure: Unless we find the way, politicians and theorists will continue to try to find it. Our protest and condemnation of their plans will not avail to prevent their efforts.

There has been from time to time a good deal of hopeful expression that industry and Government were showing signs of a more cooperative attitude. Cooperation as an abstract conception is a dead and useless thing. It is alive and useful only when applied to a definite purpose and plan. We have the purpose. We have the plan. We desire to be cured of our ailments. But where is the plan? With what are we to ask the Government to cooperate? With nothing but the theory that if the

Government will abandon its activity designed to cure our ills, the ills will cure themselves? Who among us can believe that we shall get such cooperation? With what are we to cooperate? With a Governmentally planned economy? Who expects that to be done or believes that permanent prosperity could come from it?

On the other hand, who is so pessimistic as to conclude that cooperation could not now be secured, by industry, by labor, and by the Government, if the brains which so well mastered the art of producing material things turned upon the problem of producing them in orderly, continuous fashion, offered a plan of future operations which unquestionably disclosed the purpose, and gave reasonable promise of the result of avoiding in the future such disaster as came upon us nine and a half years ago and still continues with us?

He who doubts that such cooperation could be secured must answer the question "Where do we go from here?" by the conclusion that God only knows, but that, to whatever condition we may go, it will not be a very happy one. He who believes that such cooperation could be secured need only wait for the beginning of the planning in serious, intelligent fashion before concluding that we shall go on to greater prosperity and happiness than we have ever before known. And when men can conclude that we are on our way to such prosperity, we shall be soundly on our way. When our industrialists and bankers can evolve a plan for the future that gives reasonable promise of efficient and continuous operation of industry, the confidence for which we have so much longed will be speedily restored and we shall be on our way out of the wilderness.

There may be, in these trying times, those who doubt that any plan could be devised which would accomplish the recovery and stable prosperity which all of us desire. To admit such a conviction is indeed to confess descent into a philosophy of despair. Of course it can be done! It must be done! When the initiative and ingenuity which developed our present industrial order are turned to the task of making it a more efficiently functioning order; when a positive, constructive attitude is substituted for the complaining, protesting policy heretofore followed, we shall find the way to better accomplishment and better prosperity, for more people, than we have ever before known.

In that happy event the problem of how the bankers of the country are to find ways to use their surplus funds would be speedily solved; the question whether the Federal Reserve System justifies its existence would be wholly forgotten, for you would be using its facilities as you have used them in the past to the profit of the banks, to the profit of industry, and to the benefit of the whole public.

January 13, 1940

PERSONAL AND CONFIDENTIAL

Mr. W. T. Nardin, Chairman
The Federal Reserve Bank of St. Louis
St. Louis, Missouri

Dear Bill:

I have your letter of January 8 with respect to organization problems at the Federal Reserve Bank of St. Louis and I sympathize personally with your viewpoint. At the present time, however, I would not want to raise the issues here since I have so many other things more urgent at the moment to handle with my associates. Also there is the further circumstance that in about a year Mr. Martin will retire at which time the field will be clear for a reorganization of the senior staff at the bank. In fact this matter, it seems to me, should have the attention of you and your board well in advance of that time so that the proposed organization could be ready to function immediately on Mr. Martin's retirement. Since the Board of Governors has the approval of the president and the first vice president it is highly desirable that plans be discussed with it informally before action is taken by your board.

The point you make with reference to Mr. Martin's supervision of the examination function prompts me to clarify the responsibility of the Board of Governors in that particular. In the Board's letter of March 25, 1936 (X-9532) it was proposed that the bank examination function previously under the control of the full-time chairman and agent at each Reserve bank be transferred to the operating side of the bank. The transfer, however, was to be made with the right reserved on the part of the Board of Governors to approve of the designation of the officer, preferably a vice president, to be in immediate charge of the examination work. It should be noted, however, that since the president of the bank is the chief executive officer under the present law, it is assumed that any subordinate officer in charge of examinations would report to the president as do all subordinate officers with the exception of the auditor. Thus in the last analysis the supervision of the examination function is subject to the control of the board of directors at the bank but comes up to them through the president.

Mr. W. T. Nardin - 2

It seems obvious, therefore, that if the supervision of bank examination is not being handled in a manner satisfactory to the bank's board, corrective action can be instituted, always, of course, with the approval of the Board of Governors in case of any change as to the officer in immediate charge and general policies.

I think you know that personally I feel very strongly as you do that in matters of this kind the major responsibility should repose in the board of directors of the bank and that the Board of Governors should exercise its right of approval with reference to the examination function only on major questions. I appreciate the fact that in your letter you did not request that I have this particular issue discussed and settled at this time. I shall make it a point to discuss the matter with you the next time you are in Washington which I trust will not be too far distant.

Yours sincerely,

M. S. Eccles
Chairman

LC/fgr



How to R.R.

FEDERAL RESERVE BANK
OF
ST. LOUIS

January 8, 1940

Hon. Marriner S. Eccles
Board of Governors of the
Federal Reserve System
Washington, D. C.

My dear Marriner:

We have heretofore had some conversation about the responsibilities of the board of directors of the Federal Reserve Bank, and I was under the impression that we were in substantial agreement and that you thought your board was inclined to indulge the board of directors here in the exercise of some responsibility. I recall that at our last talk on the subject you mentioned the examination department as being somewhat peculiarly, though not technically, one of the responsibilities of the chairman and the directors. I called your attention at that time to a letter to which attention had been specifically called dated September 14, 1936, which rather pointedly put the examination department under the direction of the president.

When I saw Mr. McKee in Washington recently, I told him that I would check into the matter of whether we could follow his suggestion of letting the examination department run without additional personnel during the year 1940. I later wrote him that I felt we could do it, suggesting, however, that the direction of the examination department ought to be put under Mr. Hitt, who had been designated by Mr. Martin to perform some of the supervisory functions. I felt, however, and had some reason to believe, that the responsibility for the functioning of that department was not as definitely set in one active place as it should be. I took that matter up with the board of directors here, suggested to them that it would be advisable to designate Mr. Hitt to handle the affairs of the examination department, and the board approved that recommendation. Before making the designation, I wrote Mr. McKee, asking if that would meet the approval of the board.

I had a letter Saturday forwarded to me from the bank, opened, in which it was said that the board of directors has given attention to the matter, again refers to the letter of September 14, 1936, and suggests that the matter be allowed to run under the direction of that letter without designating a vice-president to be in direct charge of the department.

January 8, 1940

I am not writing you for the purpose of getting any change in this order, but only to let you be informed about the situation. You will recall that early in 1937 I presented to you some views about the bank out here. These were presented at the time when I was asking that the board indulge Mr. Conkey and Mr. Wood in further service to the bank though they were soon to be beyond the age of sixty-five. You will recall that I outlined to you at that time the situation in the bank as I saw it, pointing out specifically that the bank organization was not efficient and that the efficiency started at the head of the bank.

At your suggestion I appeared on the following day before the board's executive session and there expressed my views as frankly and definitely as I had expressed them to you. No member of the board took exception to my analysis of the situation or to my suggestion for correcting it. I explained to the board at that time that I was expressing only my personal views as I had not discussed the matter at all with any other member of the board of directors here.

Following that discussion with the board, I took the matter up here with the executive committee which had been asked by the board of directors to make a survey of the functioning of the bank organization. I found the executive committee very heartily in accord with my suggestions, and we presented our views to the board of directors. After several conferences on the subject, the board approved the executive committee's recommendation which set forth the underlying fact rather clearly that Mr. Martin was not functioning efficiently as president of the bank. They recommended, however, that he be not asked to resign since he had a relatively short period of further service and had then served the bank since its organization, but that we fortify the organization by putting a man in the position of first vice-president who could do some of the things that Mr. Martin was not able to do. That was carried out and the board approved it.

Now Mr. Martin is no more efficient as the head of the bank today than he was in 1937. I wouldn't say he was less efficient because it would be difficult for the efficiency of that time to be aggravated. One of the characteristic inefficiencies of Mr. Martin does have close bearing on the examination department. Whatever functioning he does is in a groove made by the experiences of long past years. His attitude is generally and fundamentally that what has not heretofore been done in the Federal Reserve Bank should not be done, and that whatever is to be done in the bank should be done now in exactly the way that it was done in other years. He has little of the attitude, and none of the ability, that a man needs to deal with member banks in such a way as to make the member bank feel that we are reasonable and thoughtful of its needs and interests. In my limited experience I should say that such an attitude is very unfortunate in that part of the

organization which, as a matter of necessity, has at times to be critical. At such times it seems to me that something worthwhile can be accomplished if care is taken to bring the officials of the member bank to the point of feeling that criticism by the Federal Reserve Bank is essentially sound.

In the second paragraph of the board's letter of January 4th there is this language: "Under that arrangement, of course, President Martin has the direct, as well as the general, responsibility for the supervision of the bank examination department and the conduct of the bank supervisory work." The next paragraph of the letter recites the board's feeling that there is no need for additional personnel now to enable the bank to carry on the examination function, and continues: "and with no unusual problems in sight, the board feels that there is no immediate need for changing the present arrangement as to executive responsibility."

I understand that we are fortunate in this district in having not many serious problems. We do, however, have some. I have recently had an appeal from one of the directors of a member bank out in Missouri, a man whom I have known for thirty-five years. He wrote me to protest vigorously against the action of our examination department with respect to a management problem. I went into the matter at some length and was glad to find that I could support the judgment of the examination department here as to the need for some strengthening of the management of the bank. I felt, however, that the manner of handling the subject with the directors of the bank had been rather unfortunate. There was no occasion for me to express that opinion to the officials of the member bank. I have definitely and unreservedly expressed approval of the position taken by our examination department as to the need for strengthening the personnel of the bank's organization. The circumstance has, however, emphasized again my feeling of more diplomatic handling of such matters; that is, with better salesmanship on the part of our officials of the suggestions which they present.

The circumstance to my mind clearly demonstrated the need of having a revision of our attitude, especially in connection with the examination work and particularly in such situations as the one to which I am referring. I know that if the examination department were the definite responsibility of Mr. Hitt, I could accomplish some reform through him in that respect. I know that it would be futile to make such an attempt through Mr. Martin. He would never comprehend what I was talking about if I talked to him about it. I would hear a long recital of past occurrences, wholly impertinent to the subject. He would spend much time "making walk preposterous ghosts of the glories he once created" without having any appreciation at all of what needs to be done.

Hon. Marriner S. Eccles

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January 8, 1940

I repeat again that I am not asking that this order be changed. I'll do the best I can with the situation under the conditions which the board has prescribed. It is, however, to my mind a striking illustration of how little responsibility the Board of Governors is willing to have the directors of the local bank assume, and of how little confidence they repose in the directors of this bank. I want you to know the situation.

Very truly yours,

W. J. Hardin

Chairman

WTN:AS