

I assume you received the letters I recently sent you written by O. P. Cordill, Vice President at our Oklahoma City Branch, and Lyle C. Hague, one of our Class C directors. They should not have gone astray.

FEDERAL RESERVE BANK
OF
KANSAS CITY

April 19, 1947

PERSONAL AND CONFIDENTIAL

Mr. Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

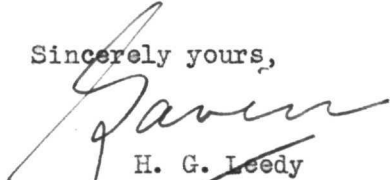
Dear Marriner:

In line with your suggestion, I hand you herewith memoranda which reflect the composite recollection of myself and all Vice Presidents at our head office concerning the remarks made by Mr. Vardaman at the meeting of our Board of Directors here on November 27, 1946, and at a luncheon meeting the same day at the bank at which the principal officers of our member banks here and in Kansas City, Kansas, were present, as well as a few representatives of investment firms and other businesses who had been invited as a result of a suggestion made by Mr. Vardaman's secretary. Specifically, the officers of the bank who have collaborated with me in the preparation of these memoranda are H. O. Koppang, First Vice President, D. W. Woolley, Vice President and Cashier, D. C. Johns, Vice President and General Counsel, and John Phillips, Jr., Vice President.

There is also herewith sent you memorandum reporting briefly on Mr. Vardaman's visit to our Denver Branch on November 26, 1946, and containing reference to some of his remarks at a meeting of the branch board there which he attended and a luncheon meeting which followed, attended by representatives of our Denver member banks. This memorandum was prepared by George H. Pipkin, Vice President in charge of the Denver Branch, and Frank H. Larson, Cashier of the branch.

I also hand you herewith a page out of the December 15, 1946, issue of "Bank News", which is published in Kansas City. The editor, Lloyd Riggs, was present at the luncheon here at which Mr. Vardaman spoke, although he had not been invited. The "banking official" to whom reference is made in the second paragraph on the enclosed sheet is Mr. Vardaman. The statements attributed to him in the second paragraph were made in an interview, but those in the third paragraph were made at the luncheon meeting.

Sincerely yours,



H. G. Leedy
President

M E M O R A N D U M

Regarding remarks of Governor J. K. Vardaman at a meeting of the Board of Directors of the Federal Reserve Bank of Kansas City on November 27, 1946.

Governor J. K. Vardaman attended a meeting of the Board of Directors of the Federal Reserve Bank of Kansas City at the head office on the morning of November 27, 1946. All members of the Board of Directors were in attendance, and the senior officers of the bank at the head office were also present. Following the transaction of the board's business, Chairman Caldwell introduced Governor Vardaman and asked him to address the meeting. The following is a summary of some of Mr. Vardaman's remarks. No attempt will be made to quote his remarks verbatim, but the sense of what he said is summarized according to the best recollection of the officers who were present at the meeting.

Governor Vardaman opened his remarks by saying that he was returning from a trip to the west coast, which he had made for the purpose of calling on Federal Reserve banks and their branches. He said that he had made plans to spend approximately one third of his time in traveling and visiting Federal Reserve bank offices and clearly implied that he believed the members of the Board of Governors had heretofore kept too close to Washington and had not traveled about the country enough to keep in touch with the current thoughts of bankers and businessmen. He said that since taking office he had visited all of the Reserve banks and their branches except the Omaha Branch of this bank and several Reserve bank offices in the South, and stated that he intended to visit the remaining offices on a trip which he would commence before the end of the year.

Governor Vardaman expressed the view that the Boards of Directors of the several Reserve banks should run the affairs of the banks and that the members of the Board of Governors should concern themselves only with major matters of policy, particularly policy matters affecting the national economy as a whole. He did feel, however, that whenever it appeared that any Reserve bank was failing to live up to its responsibilities, the Board of Governors should see that corrective measures were taken. By way of illustration he said that to his own personal knowledge some of the Reserve banks in past years had been sweat shops and that the treatment accorded to junior officers was completely degrading to them.

He said that the Board of Governors concerns itself too much with matters of detail, including matters which he considered as properly falling within the province of the Reserve banks. He said, for example, that if this bank should desire to increase the salary of a \$125 stenographer, it would be necessary for the matter to pass across the desk of each member of the Board of Governors. Another illustration he gave was the repair of a driveway at the Federal Reserve Bank of New York, which he said required the consideration of each member of the Board of Governors before the work could be undertaken.

He stated that he was of the opinion that not only should the Boards of Directors of the Federal Reserve banks have greater autonomy, but the branch boards as well should have increased authority. Among other things he said that the branch boards should pass on all loans and discounts (which he was advised was the case in so far as the branches of this bank are concerned), and that they should determine the amount of currency which should be kept on hand at their branches. He urged that the bank and its branches be prepared to meet all emergencies. He stated that in his opinion the branch directors were in a wholly untenable position; that in the eyes of the public they had responsibility for the direction of the affairs of their branches, while in fact they have no authority at all commensurate with their apparent responsibility. He thought that the head office board could and should delegate commensurate authority to the branch boards. In this connection he said that he had learned to his amazement that a president of one of the Federal Reserve banks, recently elected, had been named without the matter having been discussed with any of the branch boards of the bank, and expressed objection to the selection of the principal officers of the Federal Reserve banks in this manner.

Governor Vardaman expressed himself as feeling that our Government has drifted far from the concept of its founders. He stated that Congress is the medium through which the people exercise their will, and that Congress should reassert itself and again take over the lawmaking function which is now being performed to a considerable extent by boards, bureaus, administrators, and other agencies. He said that these boards, bureaus, and administrators are not elected by the people, that many of them could never be elected to any public office by a vote of the people, and that they are in no way responsive to the will of the electorate. He thought that this situation and the extent to which it has developed create a grave danger to our Government. The remedy, he said, is in the hands of the people, and that businessmen, bankers, and all other thinking members of the public should make their concern known by communicating directly with members of Congress who represent them and by urging their elected representatives to bring about a correction of the situation he described. This theme was elaborated at some length.

He stated it to be a well-known fact that the great bulk of the work of governmental boards, bureaus, administrators, and agencies is done at staff level, and expressed the opinion that if the situation to which he had directed attention is to be corrected, it will be necessary to begin at staff level and make a clean sweep. He expressed himself as having a low opinion of the staff of the Board of Governors, and said that if he had his way there would be a general housecleaning. He also questioned the value of the Board's research department and said he felt that the Board, and the Government generally, for that matter, would be better off with fewer "long-haired" economists.

In a brief discussion period which followed, Chairman Caldwell observed that it appeared that Mr. Vardaman had taken over the role which Governor McKee had occupied on the Board of Governors. Mr. Vardaman replied that he had not, because Governor McKee had only talked about things which needed to be done, while he (Mr. Vardaman) proposed to do something about them.

M E M O R A N D U M

Regarding remarks made by Governor J. K. Vardaman at a luncheon in the dining room at the Federal Reserve Bank of Kansas City on November 27, 1946.

At noon on November 27, 1946, following a meeting of the Board of Directors of the Federal Reserve Bank of Kansas City which Governor Vardaman attended, a luncheon was given at the bank in honor of Mr. Vardaman. In addition to the directors and officers of the bank there were present, pursuant to the bank's invitation, the presidents (or designated representatives) of all member banks in Kansas City, Missouri, and Kansas City, Kansas, and several investment bankers and businessmen. After luncheon Chairman Caldwell introduced Governor Vardaman and asked him to address the group. The following is a summary of portions of Governor Vardaman's remarks. No attempt will be made to quote Governor Vardaman's remarks verbatim, but the sense of what he said is summarized according to the best recollection of the senior officers of this bank who were present.

Governor Vardaman referred to the fact that he had but recently completed five or six years of service in the Navy, and said that he had gone into the Navy because he considered he had a job to do. He said that upon his return to this country he was appalled at the extent to which our economy has been regimented and the extent to which the country is being governed by boards, bureaus, administrators, and other agencies. He enumerated some of the bureaus and agencies for which he expressed dislike, naming them by their alphabetical titles, and in doing so included, apparently unintentionally, the FDIC. Immediately he corrected himself and said that he would not include the FDIC with the others because it is one agency which "is a damned good outfit".

Governor Vardaman stated that as a member of the Board of Governors he is one of the "untouchables". By that he said he meant that he had been appointed and confirmed for a term of fourteen years and was not subject to removal. He said, however, that he had no intention of holding the office anything like that long. He stated he had not sought the office; that the position had been offered him before the war; and that without any suggestion on his part he had again been asked to accept appointment.

He expressed satisfaction at the outcome of the November-1946 elections. The results, he said, were wholesome, in that they evidenced the dissatisfaction of the people with the kind of government to which they are being subjected. He said that this attitude was not a new thing with him because he had long been preaching constitutional government, and observed that he has been subjected to violent and personal attack by left wingers, but that it did not worry him a bit because he didn't "give a damn" what they said about him.

He said that Chairman Eccles is a brilliant man and that he deserves great credit for the Banking Act of 1935, for which he said Mr. Eccles was almost wholly responsible. He remarked that the other members of the Board of Governors are hard-working and conscientious men.

Governor Vardaman repeated in substance what he had said at the meeting of the Board of Directors of the bank that morning with respect to legislative authority being exercised by boards, bureaus, administrators, and other agencies, and the need for Congress again to assume its legislative function. By plain implication he allied himself on one side of this issue and Mr. Eccles on the other, with the other members of the Board going along under the Chairman's domination. He reiterated that the will of the people is given effect through the Congress and stressed the necessity for all citizens to let members of Congress know what is expected and wanted of them.

He stated that the legislative functions of Congress are being exercised by other governmental bodies in three ways: (1) through a delegation of authority by Congress, which he felt had been mistakenly made, and, accordingly, should be revoked; (2) through exceeding limited authority delegated by Congress; and (3) through a usurpation of authority. He said that two regulations issued by the Board of Governors were good examples, although he did not specify in which of the three above classes they fall. The first, he said, is Regulation W, which he stated was obscurely based upon an Act of Congress passed in 1917 during the first World War. Under it he said there is complete regimentation of consumer credit, which is regimentation of the very type the people have shown they are seeking to throw off. He said it was never intended that the Board of Governors should have power to regulate the way in which individual citizens spend their money.

The other example, he said, was Regulation T (although he made no mention of Regulation U, his references to Regulation T were clearly applicable also to Regulation U). He said that under Regulation T the Board of Governors was undertaking to regulate the stock market, and that it was never intended that the Board should have such power. He said he had carefully examined the statutes underlying the regulation and found in them only the power to regulate and nothing which would authorize the Board to "strangulate" the stock markets, which he said was being done with the 100 per cent margin requirement.

At the conclusion of Mr. Vardaman's talk, one of the bankers present, Mr. R. Crosby Kemper, President of City National Bank and Trust Company of Kansas City, referred to a talk made by Chairman Eccles a few months earlier before a similar luncheon in Kansas City, and stated if he correctly understood Mr. Eccles that he (Mr. Eccles) considers that the Federal Open Market Committee can control the

Government bond market, and that the Committee should control it for an indefinite period into the future. He observed that from Mr. Vardaman's remarks he assumed that he (Mr. Vardaman) was not in agreement with Mr. Eccles on that subject. Mr. Vardaman replied that the assumption was correct; that, in the first place, he felt that neither the Open Market Committee nor any other instrumentality or group had the power to control the Government bond market, but that if the Committee did have such power Congress should remove it because it is too much power for any group of men to have.

Within a few minutes after I met Governor Vardaman at the station, he made the statement that to his amazement he had discovered the Federal Reserve System and its operations were in a deplorable condition and that, unless corrected, the System could not exist another ten years. He stated it was his definite aim to correct such existing conditions and that was his main purpose in visiting each home office and branch.

He met at the branch with the branch directors and we invited to the meeting Mr. T. A. Dines and local ex-directors - Mr. John Evans, Mr. Henry Swan, Mr. J. B. Grant and Mr. H. W. Farr. At this meeting Mr. Vardaman offered certain criticisms of methods of operation, which follow.

(a) That it was ridiculous for the branch board not to be permitted to pass on rediscounts but to have the paper forwarded to the head office for final approval. (I explained that at the branches in the Tenth Federal Reserve District the branch directors did give final approval to rediscounts and that the paper was held at the branch.)

(b) That the branch board should determine the amount of money (Agent's cash) that should be held in the branch vault. (I explained that it had been the practice at this branch to have on hand not to exceed approximately fifteen million dollars, which was an arbitrary figure determined by our head office based on past experience. You may recall that at the time of the banking holiday Mr. John Evans attempted to withdraw from this branch the amount of the reserve balance of his bank as he did not want to close along with other banks. Mr. Swan was a member of the Discount Committee at that time and he and Mr. Olson refused to make delivery of the money to Mr. Evans' bank, and since that time Mr. Evans has been rather critical of the fact that the branch board did not determine the amount of money to be held here.)

(c) That the branch board should be given more authority and should be taken into consideration to a greater extent by the home office. His exact statement cannot be recalled but it gave the impression that the branch should be practically independent of the home office and its operations directed by the branch board.

(d) That there should be more Federal Reserve banks and branches. He stated it was silly to think the San Francisco bank could service such a large area and made mention of the New Orleans branch being as big, if not larger, than its home office at Atlanta.

(e) Comment regarding the Board of Governors was to the effect that the Board members were so engrossed in details that entirely too many policy matters were determined at staff level. He mentioned the fact that if this branch board wished to grant a \$10 a month salary increase for one of the employees, the recommendation must necessarily go over the desk of each Board member in Washington for approval or disapproval. (I made no attempt to correct this statement at the time but later did inform our directors that his statement was not correct as salary increases are approved or disapproved by the branch board within Form A brackets and exceptions thereto.) At the time Governor Vardaman also made mention of the approval of a \$7,000 paving bill for the driveway of the Federal Reserve Bank of New York and stated such matters should not be presented to the Board of Governors.

(f) He stated that only recently one Federal Reserve Bank had elected a President and had done so without submitting the matter to a single branch board member of its district. He indicated this should not have been done as the President elected might have been objectionable or undesirable to a branch board or member thereof.

(g) At the noonday luncheon attended by the branch board, Mr. Dines and ex-board members, together with local bankers, Mr. Vardaman made the statement that while he and Mr. Eccles did not always see eye to eye, he was a great admirer of Mr. Eccles, that they were close friends and he loved him very much. He also stated that while he was a friend of President Truman, he was not a poker player and had never been swimming in the White House pool.

(h) He stated he was on a swing around the country to get firsthand knowledge of the Federal Reserve banks and branches and to obtain the opinions of their officers and directors.

(i) At the meeting at the branch with directors and ex-directors and also at the luncheon he kept reiterating the fact that those present should keep in close touch with their senators and congressmen, and that Washington was so bogged down with bureaucracy and "shiny pants economists," it was in a terrible mess. He stated that the only way anything can be accomplished is to let the senators and congressmen know, and that we should get back to the original concept of the executive, judicial and legislative in our government.

Written by George H. Pipkin, Vice President in charge of Denver Branch, (in collaboration with Frank H. Larson, Cashier) to H. G. Leedy, President of Federal Reserve Bank of Kansas City.

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The citations for the original articles are:

Bank News, "What Bankers Tell Me," December 15, 1946.

Bank News, "Gale Johnston to Head Mercantile-Commerce," December 15, 1946.

Bank News, "The Bankers Who Participated in Bank News' Survey on the 1947 Outlook,"
December 15, 1946.

PERSONAL

April 21, 1947.

Dear Gavin:

Through an oversight, probably on my part, you did not previously receive an acknowledgment of the letters of Mr. Cordill and Mr. Hague. They arrived safely and the Chairman very much appreciated having them.

As you know, he is visiting the San Francisco Bank and will not be back until May 10. Meantime, let me thank you for your April 19 letter to him which he had advised me he expected.

With best regards,

Sincerely yours,

Mr. H. G. Leedy, President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

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