

Because of their far-reaching and important effect upon national affairs, both governmental and private, it is imperative that the rulings and decisions of the Board of Governors of the Federal Reserve System be sustained at the highest levels of public confidence and acceptance. The part which the Board plays in helping to stabilize the economy by its control of general credit conditions, the supervision which it must exercise over an important segment of the Nation's banks, and the direction and coordination of the System's affairs in such a manner as to assist in developing and maintaining governmental monetary and fiscal policies are sufficient illustrations of the imponderable and often delicate problems with which it deals in its day-to-day operations.

Perhaps no single factor is of more importance in maintaining public confidence in the System as a whole than the character and official integrity of the members of the Board of Governors which has the responsibility for its general direction. The fact that for over thirty years of System operation there has never been the slightest public hint of internal discord and friction among the members of the Board is one reason why the System today enjoys the reputation that it does.

Public confidence alone is not enough, however. Because of the diversity of System operations -- it functions through the Board, the twelve Federal Reserve Banks and their twenty-four branches, the Federal Open Market Committee and the Federal Advisory Council -- it is equally imperative that there should be complete confidence in the official integrity of the Board at all levels within the System's network as well. Congress attempted to decentralize the System by establishing twelve separate Reserve Banks. These Banks, while subject to the general supervision of the Board, also have their own officers and local boards of directors chosen from among prominent men in their communities. The Federal Open Market Committee, which is solely responsible for maintaining the Government's money market, is composed of the members of the Board and certain of the Presidents of the Reserve Banks. And the Federal Advisory Council is composed of still other bankers from each of the twelve Federal Reserve Districts.

Final decisions by the Board in integrating all of these functions into a unified System policy are to be likened more to the decisions of appellate courts of last resort than to those of the usual administrative agencies of the Government. In a sense the Board is the court of last resort on credit matters. The Governors, like appellate judges, not only must have the respect of the public generally but of each other. This is not to say that there is no room for differences of opinion between them in the conduct of the System's affairs. It is to say, however, that the full force of the System's influence will be largely dissipated or at least diluted unless the flow of System thinking be confined within the orderly and democratic channels which Congress ordained.

Unfortunately there is a situation within the Board at the present time which is working at cross purposes ~~with~~<sup>to</sup> System effectiveness. One of the Governors has managed to destroy, as to himself, all vestiges of confidence and respect among his colleagues on the Board as well as among large numbers of other members of the official System family throughout the country. He has accomplished this result by a series of acts and statements, all done or made outside the meeting rooms of the Board, which have cast direct and intended reflection upon the official conduct of the Board and its individual members. Without contributing to any substantial degree in the deliberations of the Board over the past twelve months (he has been away from Washington almost half of that time), he has used his position as a member of the Board to visit the various Federal Reserve Districts and there, by means of individual contact with Reserve Bank officials and by addresses to gatherings of local bankers and others, has by innuendo and direct statement charged the members of the Board with having abdicated their individual responsibilities by submitting to alleged bureaucratic and un-American "one man rule" of the Board's Chairman. The destructive character of these utterances may be judged by the following excerpt from the impressions recorded by one prominent banker in the South after attending a meeting addressed by the Governor in question. He stated:

"The point that impressed me especially and that I would emphasize was not so much what was said as the spirit and tone and way in which it was said. The statements made, while accompanied by protestations of regard for Mr. Eccles, were sharp in tone and, to me at least, evidently malevolent in character and self-seeking in inspiration. It seemed to me that the impression sought to be conveyed was of a dictatorial Chairman engaged in the vigorous pursuit of highly dangerous policies, refusing a hearing to opponents and critics, and followed by the rest of the Board of Governors in a spirit of childlike acquiescence. The tone of the meeting was to build up the speaker as the white hope of decent, solid Americanism and to reduce the other members of the Board to the status of scoundrels and boneheads."

These and similar comments have come from different sections of the country. Their effect already has permeated the entire organization. The effect within the Board itself has been destructive to the highest extreme. None of the Board Members has the slightest confidence in the offending Governor and there is great unwillingness to discuss any problems of a highly confidential nature in his presence. This lack of confidence is emphasized by the fact that, despite a year's tenure of office, he still lacks any of the technical and other basic knowledge to make any substantial contribution to the Board's deliberations. His

opinions, always emphatic, nevertheless are vacillating in the extreme. In addition, he has demonstrated an utter lack of personal integrity by a most unreasonable, if not unlawful, use of Board personnel, property and funds for purely personal purposes. His attitude to the employees has brought frequent protests as being ill-mannered, intemperate and on occasions abusive.

It must be apparent from these facts that the situation has reached a point where it is no longer possible for the man himself to fulfill the high responsibilities of his office. Over and above that fact, however, is the fact that his presence on the Board, to use the expression of one of the Reserve Bank Presidents, "has become a System evil". Neither the Board nor the Banks can operate at maximum efficiency while he remains a member of the Board.

The legal power of the President to remove this Governor has been discussed in another memorandum. As a practical matter, however, it would not seem that it should be necessary to resort to this expedient. If the President should summon the Governor and point out to him that, because of all of the facts above appearing, the President believes it would be against the public interest for the Governor to remain longer in office and is prepared, if necessary, to order his removal, the Governor in such event would undoubtedly resign. Even if a formal order of removal were necessary, however, the facts recited above would appear to be ample for removal and it is not anticipated that any court would want to substitute its judgment for that of the President in respect to so vital a matter in the affairs of Government.