

D R A F T

My dear Mr. President:

As you will doubtless recall, at the time of Jake Vardaman's nomination you remarked to me that he had assured you that he would cooperate fully in the work of the Reserve Board and that if this did not turn out to be the case you wished me to let you know. Subsequently it became imperative in the interest of the proper functioning of the Board to talk with John Snyder and then to you about the increasing amount of confusion which Jake was causing by public speeches and statements highly critical of Board policy, past and prospective, and also extremely critical of Administration policy generally.

Specifically, he publicly challenged the legal authority of the Board to apply the 100 per cent margin rule in the stock market, although counsel for the Board, who had thoroughly studied the matter, advised that the Act justified the rule. He has publicly disagreed with all of the rest of the Board in recommending that Congress consider favorably extension of regulation over instalment credit which, as you know, is a widely fluctuating, unstabilizing factor in the economy. He has completely disagreed likewise with the Board's carefully and long-considered viewpoint, expressed at length in its annual report of 1938, that the banking laws urgently need revision to minimize the overlapping and conflicting jurisdictions that make for what the late Senator Glass called "competition in laxity."

Jake has stoutly defended the status quo and pictured the "crazy quilt" of banking laws and regulations as a blessing. He has publicly extolled the Reserve System as a wholly independent, privately-owned institution. This has been seriously embarrassing to us in labor relations and in meeting formidable charges that private banker interests dominate our credit and monetary system.

He has publicly denounced all Government administrative rulings,

declaring that Congress should specify in detail what regulatory measures, if any, should apply. This is manifestly a wholly impractical, unrealistic attitude contrary to any established procedure. In these and other respects, his criticisms have "created plenty of confusion", as stated in the November 4 issue of Time magazine.

After my visit with you I talked to Jake about the embarrassment he was causing all of the Board as well as the staff, reminded him that he had agreed with me before his appointment that he wanted to do what he could to bring about a sensible coordination of Federal banking agencies, and tried to make clear to him that it was one thing to disagree when policy was being considered but a very different and disruptive thing to go out publicly airing these disagreements. Jake remained belligerent and apparently impervious to my appeals for the kind of teamwork that has always heretofore prevailed on the Board. However violently some members may have disagreed in the past with specific policy actions, they have not gone to the housetops to promote dissension and discord.

As a final resort, it seems to me that a letter from you might possibly have some beneficial effect and inasmuch as you indicated that you were disposed to take up with Jake the importance of appropriate conduct as a member of the Board, I am taking the liberty of enclosing a suggested draft of a personal note that you might wish to consider sending to him.

Respectfully yours,

Dear Jake:

I was very much distressed to learn in talking recently with Marriner Eccles and also John Snyder that you had been making so many public speeches and statements taking issue with Reserve Board policy and actions as well as with other governmental policies. You had assured me when I nominated you that you would undertake to work cooperatively and without such public dissension.

I am writing this note in the hope that you will follow a simple rule or two, both in your own interest and that of the Federal Reserve System. You are, I am sure, aware of the confusion that results when members of Federal agencies air differing viewpoints publicly in the press and otherwise. Public servants should follow their best judgment and convictions. That goes without saying. Cooperative work on a Government board does not, of course, mean agreeing necessarily with policy or other decisions. No good public servant is a mere rubber stamp, but he does have some obligation, as a matter of ordinary teamwork, to make his differences known and to argue his convictions pending the making of decisions. Once they are made in the democratic process of majority rule, it is not becoming for the dissenter publicly to challenge, repudiate or disparage the majority decision. To do so makes for intolerable confusion and dissension. It encourages pressure groups to add to the administrative problems. It actually defeats the purpose of a sincere dissenter, who must in the end prevail by his reason and logic leading up to the making or changing of decisions. In the long run you will, I am confident, add to your own prestige and that of the Board of which you are one member only by discharging your public responsibilities in the manner outlined.

Sincerely yours,