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## United States Senate

COMMITTEE ON FINANCE

Grand Rapids, Michigan.

July 12, 1938.

FELTON M. JOHNSTON, CLERK

Honorable Marriner S. Eccles,  
Federal Reserve System,  
Washington, D. C.

My dear Governor:

If you have not seen the enclosure you will be interested in it. It is Father Coughlin's answer to the letter which you wrote me in response to my inquiry regarding the Federal Reserve Banking System. We seem to be linked up together in this tirade - (which is tough on both of us).

I suppose it is perfectly impossible to expect that those who hold the Coughlin viewpoint will ever understand either your attitude or mine. But it is equally impossible for me to understand their attitude. I simply do not see how they expect their proposal to do anything except to pile up still further reserves in the banking institutions which they hate. They want "regulation" and complain about it when they get it. One or the other of us is terribly wrong. I confess that the "money question" is so nebulous that I am never certain what is right. But I am certain that the disruption of the present Federal Reserve System at the present time would precipitate a final tragedy upon the American people.

This exhibit once more demonstrates that we have not yet reached "the man on the street" with a convincing and conclusive explanation of the existing system. I feel that it continues to be a matter of direct concern to your Board because a disturbed state of public opinion regarding currency and banking and credit is at war with the stability and the confidence which are prerequisite to permanent recovery. I hope you and your Board will continue to deal with this educational problem. Here in the Middle West where we have hundreds of thousands of citizens of Polish extraction, I am very sure that a simple discussion of the matter by Mr. Szymczak - to be carried in the Polish newspapers - would have a tremendously stabilizing effect.

There is one point in all of these discussions which constantly recurs. Answering your denial that the Federal Reserve System is a privately owned system, Father Coughlin brands your assertion as a "falsehood" and says;

"As a matter of fact the Government does not own the

Federal Reserve Banking System. It is owned by the stockholders of the affiliated banks and is operated for the profit of those stockholders and not for the profit of the American people at large".

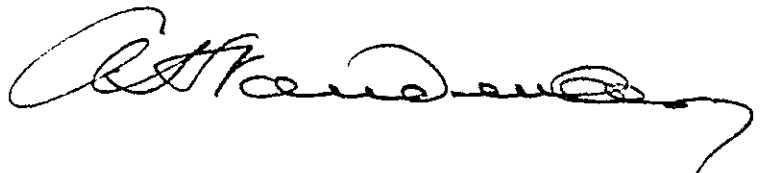
This is the nub of the controversy so far as "the man on the street" is concerned. The rest of the problem is entirely too technical to make much of an impression on him. But he listens attentively and responds sympathetically when the Federal Reserve System is attacked on the basis of being a public instrumentality operated for private profit. The worst of it is that this assertion can be technically sustained - in as much as private banks are the stockholders and in as much as they receive dividends up to 6%. But of course in a larger sense - and in reality - the statement is not true because the stock ownership carries practically no authority of management, and the major profits (above 6%) inure to the ultimate benefit of the Government itself (as demonstrated when a large portion of the Federal Reserve surplus was used in capitalizing the Federal Deposit Insurance Corporation. But the explanation never catches up with the assertion; and I find myself constantly wondering whether it would not be of final advantage to all concerned to change this basic set-up of the Federal Reserve System so as to terminate this dispute.

I know of no particular advantage to the banks which flows from stock ownership in the Federal Reserve System, and certainly the 6% earnings are not of sufficient importance to be conclusive in any degree. What harm would be done if the Government itself were to buy the entire capital stock of the Federal Reserve System and transfer the Regional Boards of Directors (composed of private bankers) into Regional Advisory Committees? Would not the System continue to operate without the loss of any actual advantages which private banks are now presumed to enjoy? What real complaint could the private banking system register against such a change? I am not advocating it at the moment. I am simply exploring the possibilities. It does seem to me to be of paramount importance that we should conclusively terminate the half-truth that the Federal Reserve System is "privately owned" and that it is "operated for private profit".

I shall welcome a frank letter from you upon this subject. You may write with the assurance that our discussion is entirely confidential.

With warm personal regards and best wishes,

Cordially and faithfully,



Enc.

August 12, 1938.

My dear Senator:

This will acknowledge yours of July 12th, which I have found most interesting. I have held it for reply wanting to think over some of the questions that you raise and to give you frankly and as completely as possible my own views in confidence regarding these matters. We must start from the point that it is apparently a hopeless task to explain the technicalities of fiscal policy, the complexities of money in a modern economy, or the mechanics of banking in terms simple enough to have the explanation understood and accepted by all the men on the street.

Many people have answered Father Coughlin. I have seen a number of these answers. It is obvious that, in expressing views on money and the Federal Reserve System, he starts from false premises and is wholly indifferent to the fact that his conclusions, even from his own premises, are illogical. Confusion in thinking results from such irrational statements. To be understood, answers to these questions should be simple and direct. It is difficult to make them simple and direct in view of his vague and erroneous assertions. It may interest you to see a pamphlet, entitled "Father Coughlin vs. The Federal Reserve System", which was written by Mr. Richard M. Boeckel and published as one of the Editorial Research Reports. I am enclosing a copy. This is among the best efforts to dispose of his statements on these subjects.

I am glad that you feel that the disruption of the present Federal Reserve System would be unfortunate. I fully agree with you. Proposals to this end are not conducive to economic stability or business recovery, and I regard these attacks as a matter of direct concern to me as a member of the Board. I think we should do whatever we can to allay a disturbed public opinion regarding currency and banking and the relation of the System to these problems, and should work in every way possible

to achieve a better understanding on the part of the general public. Members of the Board have given much thought to the educational aspect of these problems. For some time material has been in course of preparation, which some of us have hoped might answer the purpose. As yet the Board has not had before it for final approval such material in a form suitable for issuance as a pamphlet for general distribution. Such material when completed, however, should help to create a better understanding of the questions involved. I note with interest your reference to a discussion of some of these matters by Mr. Szymczak. He has made numerous addresses on various occasions covering different aspects of the work of the Board and the matters with which we deal, and I think that they have been most helpful. Other members of the Board have likewise given attention to work along this line, but, as your letter indicates, it is not a very easy job to explain economic questions, or, for that matter, the place that the Federal Reserve System occupies in the scheme of things.

I further agree with you that one of the principal questions that we must face is the ownership of the System, and that it is at the head of the entire controversy constantly going on regarding the System. As you say, it is a "public instrumentality". It is certainly now operated in the public interest and not primarily in the interest of the member banks, but, of course, as long as the member banks own the stock, derive a dividend from it, and elect six of the nine directors of the Federal Reserve banks, there will inevitably be misconceptions about the public service nature of the System. It is not an entirely adequate answer to point out how little control rests with the member banks or to say that stock ownership is in effect an assessment on the member banks for their membership in the System and to point out what has become of all profits above the six per cent dividend. Statements along these lines can be repeatedly made and may wholly fail to reach a sufficient body of public opinion to prevent a destructive attack on the System at some early date.

I am particularly interested in your suggestion that you find yourself constantly wondering whether it would not be of final advantage to all concerned to change the basic setup of the Federal Reserve System so as to end this dispute. I have given much thought to this very question. Again, you are right in say-

ing that there is no particular advantage to the member banks' owning this stock and that certainly the six per cent dividend is not of sufficient importance to these banks to endanger the future welfare of the System.

There are five possible solutions of this problem of the ownership of the Federal Reserve System:

First, it can be left as it is. As to this, I believe you and I are thinking alike and that we doubt the wisdom of continuing the present setup.

Second, the ownership could be left with the member banks; the dividend reduced to a more reasonable figure, in view of current interest rates and the return on other investments; and bankers removed from the boards of the Federal Reserve banks and their branches. This solution involves a question as to how the boards of the banks would then be constituted. One solution that has been suggested would be to have the Board of Governors continue to appoint three members of the boards of the twelve banks, letting all the insured banks of the country elect three members of these boards, who should not be bankers, but should be representatives of commerce, industry, and agriculture, and have the State superintendents of banks in the States in which the Federal Reserve banks are located designate one of their number as the seventh director. This removes in some part the arguments that those attacking the System are now advancing, but it does not remove all of the objections.

Third, to have the stock of the Federal Reserve banks sold to individuals, providing for some limitations as to the amount that could be owned in any Federal Reserve district and the amount that could be owned by any individual. The board of directors of the banks could then be named in part by the Board of Governors and in part by the stockholders (again eliminating bankers from the boards). There are some advantages and some disadvantages in this plan, but it should have some appeal to popular imagination, and should serve to bring the System into closer contact with the people of the country. The argument might be advanced that this again was not public ownership but private ownership, but as long as the stock could be acquired by any individual the charge should not be too seriously considered.

Fourth, let the Government acquire the entire capital stock. It is reasonable to anticipate a good deal of opposition to this suggestion on the theory that this plan would result in the establishment of one central bank (the existing Federal Reserve banks and their branches becoming merely branches of the one central bank). There is a good deal of traditional opposition to the idea. It is rather interesting to remember that just before the passage of the Federal Reserve Act there was very strong pressure for the establishment of one central bank (although, in this case, it was to be owned by the member banks). This pressure came almost wholly from the large financial interests in New York. There is now some advocacy of one central bank, but it comes from a wholly different group and from a group that is more or less representative of those who opposed the idea twenty-six years or more ago; whereas, those who then proposed it are now opposing the idea. We must remember, however, as I have said before, the plan then was to have the central bank privately owned, and now it is proposed to have it owned by the Government.

Fifth, the capital stock of the Federal Reserve banks could be abolished and the Reserve banks could operate with no capital funds except their surplus and without any stock ownership. This would require a rather simple amendment to the law but would raise a number of questions, most of which would relate to the mechanisms of such an operation and none of which would seem to be difficult of solution. There would be the question as to how membership in the Federal Reserve System would then be acquired and maintained. This could probably be solved by requiring the bank seeking membership to agree to deposit the required reserves with the Federal Reserve bank, with the approval of the Board in the case of State banks, or the amendment could require all insured banks to maintain their reserves with the Federal Reserve banks, thereby becoming entitled to share in all the benefits of membership. The question of earnings would also have to be determined. Possibly all earnings could be carried to surplus until the surplus reached a prescribed amount, all earnings above this figure going to the United States as a franchise tax. There are also some other possible solutions of the problem of earnings. The method of selecting directors of Federal Reserve banks would also have to be de-

terminated, but again the Board might appoint a certain number, all insured banks electing a certain number (not bankers), and providing for membership on the boards of representatives of the State supervisory agencies, the latter for the purpose of bringing the State banking departments in closer contact with the operation of the System.

At the present time, this fifth suggestion seems to be less open to objection than any of the other four alternatives. I am not advocating at the moment any one of these solutions, but merely wished to outline the possible alternatives, as I see them, so that you might have them in mind while you are exploring the possibilities for finding the best possible answer to the problem of ownership.

There are many related questions with reference to the objectives and powers of the System, including the overlapping of Federal bank supervisory relationship, which I think also need exploration. I am enclosing a chart which shows the principal bank supervisory relationships as they now exist. It is true that all of the authorities indicated by this chart are not exercised by all of these agencies, but that the right to exercise them exists and that there are so many actual duplications and overlappings of authority indicate the desirability of studying the whole question with a view of establishing the simplest form of supervision, which should in turn be the strongest form and which should lead in turn to the establishment and maintenance of a sounder banking system.

I shall welcome having the benefit of your views on these subjects. I have tried to answer your letter in the same spirit of frankness in which it was written, particularly in view of your statement that the discussion will be treated as confidential. Like you, I am interested solely in trying to find the soundest, most practicable solutions for these problems.

With kindest personal regards,

Sincerely yours,

M. S. Eccles,  
Chairman.

Honorable Arthur H. Vandenberg,  
United States Senator,  
Grand Rapids, Michigan.

enclosures

RR:b



*Handwritten initials*

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# United States Senate

COMMITTEE ON FINANCE

FELTON M. JOHNSTON, CLERK

Grand Rapids, Michigan.  
August 16, 1938.

Honorable Marriner S. Eccles,  
Federal Reserve Board,  
Washington, D. C.

My dear Mr. Eccles:

I am indebted to you for your confidential letter of August 12th and for your very frank discussion of the questions raised in my letter of July 12th.

Evidently we are thinking of this problem in the same light and from the same viewpoint - seeking upon the one hand to preserve the integrity of the Federal Reserve System, and on the other hand to remove needless causes or prejudices against it.

I want to continue to keep in touch with you in connection with this problem.

With warm personal regards and best wishes,

Cordially and faithfully,

