

March 7, 1950.

Honorable Paul W. Shafer,
House of Representatives,
Washington, D.C.

Dear Mr. Shafer:

Your statements about the Federal Reserve Board in your speech on the floor of the House on February 21 and in the Appendix of the Congressional Record on February 15 contain so many misconceptions and misstatements of fact that I cannot permit these utterances to go unchallenged. They do a great injustice to R. M. Evans and M. S. Symcsak, members of the Board of Governors, to the late Governor Lawrence Clayton, as well as to myself. In making the unfounded charge that the Board has been "packed" through violating the appointment provisions of the law, you cast wholly unwarranted reflections upon the Senate Committee on Banking and Currency, and the Senate itself in the discharge of its function of confirming appointments. As a matter of simple justice I believe that the correct facts, which are set forth below, should be placed in the Congressional Record.

In the first place, you are obviously unfamiliar with the intent of the provisions of the Federal Reserve Act with regard to appointments. Section 10 of the Act states:

"In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country."

This section of the law was purposely drawn in very general terms as Senator Glass was at pains to explain when the Federal Reserve Act was first presented in Congress. The House Committee on Banking and Currency, of which Mr. Glass was the Chairman, in a report which you will find on pages 305 et seq. of the authoritative volume "The Federal Reserve System" by the late Henry Parker Willis, who was the economic adviser to the Committee, stated:

"The provision that the President in making his selection shall so far as possible select them in order to represent the different geographical regions of the country has been inserted

in very general language in order that, while it might not be minutely mandatory, it should be the expressed wish of the Congress that no undue preponderance should be allowed to any one portion of the Nation at the expense of other portions. The provision, however, does not bind the President to any slavish recognition of given geographical sections."

The law provides for seven members of the Board; there are twelve Federal Reserve districts. Hence, all districts could not be represented on the Board at any one time. It was never the intent of the law that the Board should be representative of sectional interests. The wording of the law was designed to negative sectional representation, and to emphasize the public interest through broad distribution of representation of financial, agricultural, industrial and commercial interests.

Taking up the individual cases in the order in which you discussed them in your speech on the floor of the House:

You state that there was a "deliberate evasion of the spirit of the law" because Mr. Evans was appointed from the Fifth Federal Reserve District. Mr. Evans has resided in the Fifth Federal Reserve District since the end of 1936 and, in fact, established his voting residence in Virginia though his is by no means required as a condition for appointment from a Federal Reserve district. He was appointed in March of 1942 for the unexpired portion of the term of Mr. Chester C. Davis who resigned to become President of the Federal Reserve Bank of St. Louis. Mr. Davis, who preceded Mr. Evans as the Administrator of the AAA, was himself named to the Federal Reserve Board from the same Fifth Federal Reserve District. His appointment, as was that of Governor Evans, was passed upon by a Senate committee of which Senator Glass was a member, and Chairman of a subcommittee on Federal Reserve matters. As the chief sponsor of the Federal Reserve Act Senator Glass was presumed to know more about its content and intent than any other living person. Senator Glass did not, and of course would not, knowing the law, raise any such far-fetched objection as you stated in your speech, either to Mr. Davis' or Mr. Evans' appointment. Both came originally from Iowa. Both had resided for a number of years in the Fifth Federal Reserve District. Both were selected to be representative of agriculture nationally.

You also stated that Mr. Evans, at the time of his selection, "was a close friend of Marriner Eccles." The fact is that I had only a casual official acquaintance with Mr. Evans. He was strongly recommended by Mr. Davis who had an intimate knowledge of his fine record in the agricultural field. He was also supported by national farm organizations,

particularly the American Farm Bureau Federation. To suggest, as you do, that Mr. Evans would lend himself to a "packing" of the Board is an affront and an injustice which I resent on his behalf. If you had any acquaintance whatever with the man and his record, you would know how false this imputation is.

Your statements with regard to Mr. Clayton are equally far from the truth. Again, because you are ignorant of the law as it was drawn by Senator Glass, you make the false charge that Mr. Clayton's appointment violated the spirit of the law. Then you state that "in January 1945 Eccles had Clayton moved to Boston, Massachusetts, where he assumed the nominal position of President of Clayton Securities Corp., of Boston, a company owned and operated by Clayton's brother." You added that before he went to Boston it was "understood that President Roosevelt had agreed to" his appointment to the Board after he had established a residence in Boston. There was no such agreement whatsoever nor did I have Mr. Clayton "moved" to Boston. When Mr. Clayton left Utah at my instance in December of 1934 to be my assistant when I became Governor of the Federal Reserve Board he sold his home there, gave up his voting residence and settled in Washington. He had no plans for returning to Utah. He went to Boston at the request of his brother, to my great regret and not with my urging — quite the contrary. He bought a home there and became a voting resident of the State. So far as I knew he intended to remain there indefinitely. Your insinuation that this move was a part of a scheme to circumvent the law is utterly baseless and again a grave injustice to a man of independent mind and judgment. I urged his appointment to President Truman because of an internal situation which had developed on the Board. Governor Szymczak was absent on an important mission in Europe as an economic adviser to our military government in Germany. Ronald Ransom, of Atlanta, Vice Chairman of the Board, was gravely ill, and, in fact, on his deathbed. Governor Vardaman, who had been on the Board a comparatively short time, was visiting the various Federal Reserve Banks to become better acquainted with the System and, as a result, was absent for extended intervals. As a consequence, the problem of obtaining a quorum of the Board became acute. In this situation I recommended to President Truman that he name Mr. Clayton inasmuch as he had had a long experience in commercial as well as investment banking, he had been my close associate in Federal Reserve policy matters and administration ever since 1934. In addition to his experience in banking and in the Reserve System he was a graduate of the Harvard Law School. I knew of no one better fitted by experience, by temperament, by qualifications generally than Mr. Clayton to come on the Board and immediately assume the responsibilities which an unexperienced man could not have been expected to shoulder without a long period of apprenticeship.

Honorable Paul W. Shafer

-4-

Again, your imputation of "packing" the Board by Mr. Clayton's appointment is a grave injustice to all concerned, including the President and the members of the Senate Committee who thoroughly inquired into his qualifications. I had personally discussed his appointment with Senator Taft who was well acquainted with him, with Senator White and with Senator Millican, the three ranking Republican leaders, and also with Senator Tobey, then Chairman of the Senate Banking and Currency Committee. They all indicated that they would favor his confirmation if the appointment were made. Likewise, other New England Senators, including Senators Saltonstall and Lodge of Massachusetts, Flanders of Vermont, McMahon of Connecticut, and Bridges of New Hampshire, were consulted and gave him their support. Moreover, the leading bankers of the First Federal Reserve District likewise supported Mr. Clayton's appointment. In fact, I am not aware of any dissenting voice that was raised in the New England district by bankers, members of Congress, or anyone else. He was confirmed without a dissenting voice on the floor of a Senate in which the Republicans had a majority. Your insinuation that Mr. Clayton was a rubber stamp is as baseless as your other reflections upon Board members.

As for Governor Szymczak's appointment, your speech appears to imply that Board members should not serve longer than 14 years. The provision that "any person appointed as a member of the Board after the date of enactment of the Banking Act of 1935 shall not be eligible for reappointment as such member after he shall have served a full term of fourteen years" was written into the Banking Act of 1935 for the first time and became effective on February 1, 1936. Previously there was no limitation. The 1935 Act was not retroactive and there was no requirement, legal or otherwise, to stand in the way of Governor Szymczak's appointment as of February 1, 1948, to a full 14-year term. That was the judgment of Counsel for the Board as well as the judgment of the Senate Banking and Currency Committee which inquired fully into this question and recommended his confirmation by the Senate, where he was unanimously confirmed. It would have been a great misfortune to lose the services of Governor Szymczak who is still a comparatively young man. His industry and devotion to his task are well known to all who are acquainted with him. Your tortured misreading of the facts are as unjust to him as to the others.

As for myself, it is ludicrous for you to suggest any lack of independence on my part. If there is any one thing with which I have been charged above all else it is that I have been too independent of White House or Treasury or other influences, in or out of Government. I have never run for, or sought, public office, nor have I ever engaged in political activities. I have no political or other axes to grind. As one

Honorable Paul W. Shafer

-5-

who has spent most of his adult life in banking and business I am quite as solicitous as you are to preserve our system of private enterprise and our democratic institutions. To this end I think it imperative to prevent any "packing" of the Federal Reserve Board and to maintain its independence.

Sincerely yours,

M. S. Eccles.