

FEDERAL RESERVE BOARD

WASHINGTON

July 8, 1922.

X-3469

SUBJECT: Letter to Senate re Senate Resolution 308.

Dear Sir:

There is enclosed herewith, for your information, copy of a letter addressed by the Federal Reserve Board today to the President of the Senate, transmitting replies of three of the Federal Reserve Banks to Senate Resolution 308.

Very truly yours,

G o v e r n o r .

(Enclosure)

GOVERNORS OF ALL F. R. BANK
COPIES TO AGENTS

July 8, 1922.

Sir:

The Federal Reserve Board transmits herewith letters from the Federal Reserve Banks of Philadelphia, Richmond and St. Louis, in reply to Senate Resolution 308. Replies from the other banks will be forwarded as soon as received.

In transmitting this correspondence the Board trusts that it may, without impropriety, avail itself of the opportunity to invite the attention of the Senate to certain matters which have a direct bearing upon the subject of the inquiry.

The corporate powers of the Federal Reserve Banks are defined in Section 4 of the Federal Reserve Act, which provides, inter alia, that "Every Federal Reserve bank shall be conducted under the supervision and control of a board of directors" and that such directors "shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law".

The banking business is one which rests peculiarly upon the foundation of confidence. While true in the case of any bank, this is particularly true with respect to a Federal Reserve Bank which is the sole custodian of the legal reserves of its member banks and the instrumentality through which is issued the country's fiduciary currency. Anything which tends to undermine public confidence in a bank, and in a Reserve Bank particularly, impairs its ability to perform its functions and unless counteracted may defeat entirely the purposes of its organization. Therefore, those charged with the administration of a bank have the right and are impressed with the duty of using all legitimate means, when necessary, to protect its good name and to prevent any impairment of public confidence.

Criticisms of policy cannot be objected to and have always been welcomed by the Federal Reserve Board, which has never imputed to itself infallibility of judgment. The Board has been charged with the administration of a new and untried law and has from the beginning been confronted with a series of difficult and unprecedented situations. When criticism is based upon the solid foundation of fact, and understanding of the Federal Reserve Act and of banking principles, it is useful; it is helpful to those charged with the duties of administration. To the Federal Reserve Board it has appeared, however, that for the past two years much that has been said under the guise of criticism of policy has not been intended to help, but to discredit the management of the Federal Reserve System through attacks upon the integrity and purpose of members of the Federal Reserve Board and of officers and directors of Federal Reserve Banks.

These attacks have been so repeatedly made and have had such publicity as to justify the suspicion that they are part of a concerted movement

against the Federal Reserve System. The patience and forbearance with which members of the Federal Reserve Board and officers and directors of Federal Reserve Banks have borne these repeated attacks, many of them personally abusive, have been cited as an admission of the truth of charges made and have tended to raise in the minds of some who endorse the principles of the Federal Reserve Act but who had no means of informing themselves as to facts, a question as to whether there may not have been some foundation for the charge that members of the Federal Reserve Board and officers and directors of Federal Reserve Banks have been incapable and corrupt.

Beginning last summer insinuations and charges which had been made on the outside were repeated and amplified on the floor of the Senate of the United States, not merely once or twice but at frequent intervals up to the present time. This circumstance has caused a great amount of correspondence with persons asking for information and Board members, as well as officers and directors of Federal Reserve Banks, have had occasion frequently to consider whether there were any means which might appropriately be employed to inform the public as to the operation of the Federal Reserve Banks and the character of their management.

Respecting the constitutional prerogatives of the members of the Senate, care has been taken to make no criticism of any member thereof in any reply to letters of inquiry. This circumstance also has been construed as an admission of the truth of charges so frequently made on the floor of the Senate, some of which would have been resented as libelous but for the constitutional immunity above referred to.

Many quotations could be made from statements which have been printed in the Congressional Record during the past twelve months, which are misleading and untrue, but their insertion would unduly extend this communication. The Board has seen nothing to indicate that those who made these statements have ever corrected them.

Last January the junior Senator from Virginia, who was Chairman of the Banking and Currency Committee of the House of Representatives which reported the bill creating the Federal Reserve System and who was afterwards Secretary of the Treasury and ex-officio Chairman of the Federal Reserve Board, made a speech on the floor of the Senate, in which he discussed at length the operation of the Federal Reserve Banks and the attitude of the Federal Reserve Board during the recent period of economic reaction and financial stress. The speech was delivered during parts of two days. A brief report of it appeared in the daily papers and requests followed for complete copies of the speech. Officers of Federal Reserve Banks, who for several months had felt themselves obliged to maintain silence while their motives and integrity were being assailed, deemed it not improper to avail themselves of the opportunity then presented to give to their correspondents and to others in their respective communities who had evinced an interest or who were supposed to be interested in the economic questions dealt with, information which would enable them to draw their own conclusions.

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The speech was a public document. Having been delivered on the floor of the Senate and having been published in the Congressional Record, the Federal Reserve Board felt that there could be no impropriety in the distribution of copies by the Federal Reserve Banks. The speech dealt so comprehensively with charges and statements which had been made in the same place and printed in the same publication that the Board believed it should be given wide publicity. Having been informed that copies might be obtained from the Public Printer if ordered promptly, it was decided that the Governor should send to each Federal Reserve Bank the following telegram:

"January 18, 1922.

"Think Senator Glass' great speech defending Federal Reserve System should be widely and promptly circulated. Government printing office will print special copies of it Friday 20th and additional orders should be given tomorrow. Printing Office estimates cost of copies at from five to seven cents each. Please wire promptly how many copies your bank wishes.

Harding."

(Note: This estimate of cost was too high. In view of the great demand for the speech and the large number of copies printed, the cost per copy to each Federal Reserve Bank was approximately $1\frac{3}{4}$ cents.)

The Federal Reserve Board assumes responsibility for commending this speech to the Federal Reserve Banks for circulation. Neither the Board nor the Federal Reserve Banks regarded the speech as being an attack upon any Senator and were not interested in it from that point of view. This speech was and is regarded by the Board as a fair presentation of facts. It was commended to the banks for circulation because it was an answer made in the Senate Chamber to charges which had been made on the floor of the Senate. It is a clear exposition of the policies, functions and operations of the Federal Reserve System during a critical period and is an important contribution to current economic discussion.

Respectfully,

(Signed) W. P. G. HARDING

G o v e r n o r .

The President of the Senate.