4. The Issue is Joined

I HAVE SAID that hearings by the House Banking and Currency Committee began on February 21 and ran to April 8, and that it was not until April 19 that the Glass subcommittee began its hearings.

Of the twenty-three witnesses called before the House Committee, only a handful opposed the changes that were being proposed in the Federal Reserve System. One of those who did so was Professor Walter E. Spahr of New York University. As secretary of the Economists National Committee on Monetary Policy, Spahr gained the signatures of some sixty-six well-known professors in various universities, all of whom endorsed the statement of opposition he presented in person at this time. I do not know who subsidized the committee then or during its later career as a common scold. But it was Spahr's misfortune that he appeared before the House committee instead of the Senate subcommittee. The House committee, under the intellectual leadership of Congressman Goldsborough, was committed to the principle of a central bank. It saw that principle expressed in the provisions of Title II, and thus, in dealing with Spahr's testimony, riddled him in a manner as embarrassing as it was remorseless. Ironically, Professor Spahr was a latter-day successor at New York University to Professor Joseph French Johnson, whom Glass frequently assailed in 1913 for opposing the Reserve Act of that year.

I was in close touch with Steagall and Goldsborough throughout the House hearings. The various amendments they thought necessary in the version of the bill sent to them were highly desirable and I readily associated myself with the changes they

proposed. Concurrently, I was also in touch with the principal officials of the American Bankers Association to gain their views of the measure.

A full-dress presentation of my own arguments in support of the bill occurred at this time when the executive council of the Association met in Pass Christian, Mississippi. Earlier, on February 12, a few days after the banking bill had been sent to the House and Senate, I addressed the Mid-Winter Convention of the Ohio Bankers and stated why the Federal Reserve System had to be changed along the lines proposed in the bill before Congress. This address was printed in the *Congressional Record* and thereafter was widely distributed. But I felt that a face-to-face meeting with the GHQ for the bankers meeting in Pass Christian might yield better results. At least, there was nothing to lose.

At first the result of this meeting was more favorable than anyone had reason to expect. The group at Pass Christian approved the formation of a five-man committee, to be located in Washington, where it would act as liaison between the banking community and Administration leaders in the House and Senate while the banking bill was being considered. Included on this committee were Ronald Ransom of Atlanta, then the chairman of the ABA committee on federal legislation; Rudolph S. Hecht, president of the ABA; Robert V. Fleming of the Riggs National Bank in Washington and first vice president of ABA; Tom K. Smith of the Boatmen's National Bank in St. Louis and second vice president of ABA; and Winthrop W. Aldrich of the Chase National Bank in New York.

With the exception of strong resistance to the draft formula for the composition of the Open Market Committee, the five-man committee went a long way in endorsing the changes in the Reserve System that were being proposed. I was further encouraged when their recommendations were later approved by the executive council of the ABA at a meeting in Augusta, Georgia. It seemed for a while that a policy of concessions as a

price of reducing banker opposition would pay off, but it turned out that the five-man committee and the executive council of the ABA were generals without troops. They could not carry the majority of the nation's bankers with them. Moreover, even these generals split into two camps when Aldrich, who had signed the statement of recommendations, placed himself in the van of the banker attack on Title II during the Senate hearings. Matching what he said as a member of the ABA committee with what he said publicly before the Senate committee, I was dumbfounded by the contradiction in his two views. On more sober reflection, however, I realized that this accorded with other experiences I had during this period. I could convince bankers individually of the need for changes in the Reserve System, but when they returned to their own camp, they went native again and accepted the party line.

The bill that the House committee reported out on April 19, 1935 gave specific expression to the propositions I had put to President Roosevelt in my conversation with him on November 4, 1934 and in the memorandum I left with him at that time. It was approved by the House of Representatives on May 9, 1935 by a 271–110 vote.

But before the Senate subcommittee began its hearing on the bill—it was seventy-three days after Roosevelt sent the banking bill to Congress and eleven days after the House committee finished its work—Glass addressed himself to another matter.

My nomination as Governor of the Federal Reserve Board had been pidgeonholed in his committee for about three months. It might have remained there indefinitely had it not been for the favorable character of the House committee's action on Title II. Since by this time the banking bill was called the "Eccles bill," if the Senate subcommittee rejected my nomination as Governor, the work of the House committee in approving the banking measure would be discredited. And as a double thrust, if it could be rejected *before* the Senate subcommittee began its hearings on the bill proper, it would simplify the task of rejecting

the whole of Title II, with which I was linked. So on April 15, seven days after the House committee finished its hearings and three days before it reported out its version of the bill, Glass called his group together to consider my appointment.

He felt obliged at the outset to explain to me why he had been so long in taking the appointment under direct consideration. He and at least four other members of the subcommittee, he said, were on the Senate Appropriations Committee which had been busy in the previous months working on the relief bill. "We have," he said, "been unable to consider the matter before this time, much to my regret and very likely to that of other members of the subcommittee as well as yourself." I confess I found it difficult to hold back a smile when I heard this explanation and matched it with the delaying tactics employed in the Senate in 1913 to defeat the original Federal Reserve Act. The man who had once denounced these tactics was now apparently using them himself.

The reason given for the delay became all the more fanciful in view of the character of the hearings that were held. The one on April 15 produced a total of fifteen pages of testimony on my banking connections, with Glass intent on confirming what had been told him by the Democratic National Committeemen from Utah. The questioning lasted only an hour. The hearing on April 19, at which I was not present, lasted ten minutes and was called for the sake of adding two letters to the record. Thus, after three months of delay before time could be spared for the hearings, seventy minutes disposed of the matter. It is my somewhat jaundiced belief that Glass felt his purposes would be better served if the hearings in no way involved an inquiry into economic doctrine held by the nominee; if, instead, there was a brief recitation of his business connections and then, in a short, sharp shock, his head was cut off, as if to suggest to the public that the committee had heard enough to warrant this extreme action.

Things almost worked out that way. When it came time to

vote, three Senators on the subcommittee were known to be in favor of confirmation and two were known to be against it. The ultimate decision lay in the hands of Senators Couzens of Michigan and McAdoo of California. George Creel, who was a friend of McAdoo, brought me word that he would cast an affirmative vote. But McAdoo was absent at voting time and gave his proxy beforehand to Glass. That meant a 3–3 deadlock in the committee, with the deciding vote going to Senator Couzens.

It so happened that Couzens was an intimate of the Republican leader of the Senate, Charles L. McNary of Oregon. McNary had known of my family and its Oregon lumbering operations. When Couzens made a chance inquiry of McNary regarding my "views," he was assured that I was neither the dangerous radical nor the knave I had been made out to be. Thus it came about that Couzens voted aye and the tally in the subcommittee (though it was unrecorded) stood at 4–3 in favor of my confirmation.

I know of few cases in the Roosevelt years where the lines of political force were more tangled. Here was Senator McNary, the Republican leader and a future nominee for the Vice-Presidency on the Republican ticket, inducing a fellow Republican, Senator Couzens, to vote for a Roosevelt appointee identified with a piece of "radical" banking legislation, and to align himself with a leader of the Roosevelt Administration, Senator Byrnes, in opposing the will of the great Wilsonian Democrats Glass and McAdoo.

When the full Senate Banking and Currency Committee met to consider the appointment, Glass was conspicuously absent. The vote here was unanimously in favor of confirmation. On April 25, when the Senate as a whole considered the matter, Glass stood alone in voting no. For once his veto was overridden. This increased his unhappiness. At various times throughout the Senate hearings on the banking bill—remember they began on April 19, that being the day the 4–3 vote of confirmation was taken in the subcommittee, and the day on which the House of

Representatives received the bill from the Steagall committee—Glass lectured his colleagues on their ways. Between his complaints "that as so frequently happens now, my sound opinions [do] not count for much," he also complained that the Senate had surrendered its constitutional right to share the Presidential power of appointment—this after the Senate had exercised its constitutional powers by confirming an appointee Glass did not like.

Having failed to kill Title II by the indirect means of blocking my confirmation as Governor of the Federal Reserve Board, Glass turned his attention to a direct attack on the legislation. At the outset of the hearings he found it necessary to explain again why "there has been some delay" in the consideration of this bill. The reasons stated were the same as when he explained why it had taken some three months to hold a hearing on my appointment.

Of the sixty witnesses he called to testify on the banking bill, the majority confined their attention to Title II, and of these a majority again were against it. In addition to Winthrop W. Aldrich, James P. Warburg, and Professors Edwin W. Kemmerer of Princeton, Henry Parker Willis of Columbia, and Oliver M. W. Sprague of Harvard, an impressive corps of other great and near-great names in the world of finance voiced their opposition. They were James H. Perkins, chairman of the National City Bank of New York and a member of the Federal Advisory Council; Owen D. Young, chairman of the board of General Electric Company and a director of the New York Federal Reserve Bank; Frank A. Vanderlip, former president of the National City Bank, New York (who had led the banker opposition to the Reserve Act of 1913 and to Glass personally on that occasion); John B. Byrne, chairman of a special committee of the executive committee of the Connecticut Bankers Association; Elwyn Evans, representing the clearing-house banks of Wilmington, Delaware; Henry Ridgely, president of the Farmers Bank of the State of Delaware; William L. Sweet, chairman

of a special committee on banking legislation of the United States Chamber of Commerce; Edward Eagle Brown, president of the First National Bank of Chicago; H. Grady Langford, president of the Georgia Bankers Association, and many others.

The common thread in the testimony of all of them was somewhat like this: Title II was not needed. The existing Federal Reserve System was working quite well—this despite the fact that it had failed to prevent the banking collapse of the thirties. Any powers the government needed to launch various policies within the System were already on hand. If there were any changes to be made in the System, the matter should be turned over for further study to a group of experts. There was no emergency that required quick action. Enactment of Title II would destroy the regional setup of the System. It would subject the whole System to political domination by the President of the United States.

The repetitive pattern of this opposition permits a choice of but two representative statements to document the character of the attack. The first is by James P. Warburg, the opening witness when Title II was under consideration. The second is by Owen D. Young, who served as file-closer for the attack at the tail end of the Senate hearings, but who later became a close friend and a valued official in the Reserve System. The mere spacing of various witnesses reveals the character of the new delaying tactics decided on as a means of defeating this part of the bill.

As I have said, the Senate hearings proper began with statements by Leo T. Crowley and J. F. T. O'Connor, whose agencies were affected by the first and third titles of the bill. The order of parts would have called for my appearance in between these two men, or at least after O'Connor. But Warburg was wedged in at this moment to speak his lines.

As Glass explained it: "I am hearing Mr. Warburg this morning [April 27] because he finds it necessary to go to Europe on Friday. I had not contemplated calling him until the officials of

the Federal Reserve Board had first been heard; but owing to his arrangements, it is desirable to hear him this morning."

Though Glass stated the truth of the matter, the appearance of Warburg at this juncture allowed the opponents of Title II to grasp the initiative in the Senate hearings (as they had done in 1913) and to state the terms of the ensuing battle. Moreover, soon after Warburg testified, other men who did not have to catch boats for Europe were brought before Senator Glass to speak in an identical key of opposition. It was only after what they had to say had been firmly fixed in the public mind that I was called on to state the case for the provisions that were under attack. This was on May 10, nearly a month after the Senate hearings began, and two months after I had appeared before the Steagall committee. The date acquires its full significance, as indeed do all turns before the Glass subcommittee when they are matched against concurrent developments on the House side of Capitol Hill. May 10 was the day after the House of Representatives had passed with but slight modifications the measure I wanted. Since the House refused to act as a hangman, the Senate subcommittee at last had to face up to that task.

I have said that Warburg's testimoney opened the attack on Title II. It reads in part:

> If the present fiscal and monetary policies are designed to accelerate recovery—which I for one do not believe they are—these fiscal and monetary policies are certainly not being impeded today by any obstacles that would be removed through the enactment of the proposed measure. The Federal Reserve System is today the obedient servant of the Administration, even though by law it is intended to be an independent authority. I fail to see how the mere legalization of the present status would in any way accelerate recovery.
>
> I believe that the whole subject matter of Title II of the Banking Act of 1935 is not ripe for legislation and should be referred to an appropriate body for expert study and analysis. . . . In view of the vast complexity of the problem, in view of the fact that there is no present emergency which makes necessary the adoption of the drastic

and fundamental changes advocated by Governor Eccles, I therefore urge this committee to consider whether it would not be far wiser to appoint a commission to study the entire banking and currency problem thoroughly and at leisure before any basic legislation is attempted.

In conclusion, Title II is a proposal (1) to make a centralized system out of a regional reserve system; (2) to bring the system so created under political domination and control; and (3) to remove almost entirely the automatic control inherent in the existing law.

Warburg's statements did not go unchallenged. Since his warcry against "political control" was to be the dominant note struck by all who opposed Title II, his examination on this point is worth recording. Thus:

Senator Couzens: The witness, Mr. Warburg, referred many times to political control, during the reading of his testimony. What kind of control do you prefer?

Mr. Warburg: To political control?

Senator Couzens: You disposed of political control in your testimony. What kind of control do you prefer if you do not want political control?

Mr. Warburg: In the first place, I do not believe there is any such thing as conscious control of credit and monetary machinery. That is what this bill seeks. I do not believe it is possible to find any person who is omniscient enough to do that. But if you are going to set up a group of men and ask them to do what I think is an impossible job, then you want to try to get the best men you can get hold of and be sure they are divested of private interests and that they do the best job possible. I do not think it can be done at all in the sense they are trying to do it here.

Senator Couzens: No; but I go back to the question—not with respect to the particular bill in front of us—but you talked about political control, which is, obviously an admission there must be some control. What kind of control would you have?

Mr. Warburg: I do not admit that that is an admission of control; not the kind you mean.

Senator Couzens: Did you know of anything in your life that did not have some kind of control?

Mr. Warburg: The kind of control I meant, is a large number of persons entering into transactions with the hope of profit. That gives a free economic order. Now the minute you inject into that the reshaping of credit and monetary machinery because you control factors, or of private interest, you increase the disparity in other factors. That is why I take issue with the necessity for control.

Senator Couzens: Mr. Warburg, do you want this committee to understand, and the public, that those influences have happened without control?

Mr. Warburg: Which influences, Senator?

Senator Couzens: Why, the influences that you have been complaining about and that you want to get out of political control? There is certainly something in the atmosphere that inspires you to continue to repeat that you do not want political control. You must, of course, have had enough experience to know that there is always control in everything, and I would like to know if you do not admit there has been some control somewhere.

Mr. Warburg: Yes; there has been control somewhere. . . .

Senator Glass: . . . Mr. Warburg, we are very much obliged to you.

None of the other witnesses who appeared before the subcommittee were any more successful in stating wherein the danger of political control could be located in the proposed changes. All spoke in the same fuzzy way that hinted at dark and sinister things; present but somehow elusive; now of pinpoint size, now gigantic in their menace; now a mere condition of the atmosphere, now concrete in shape; but all indicating that somehow and in some way the President of the United States would become a dictator if the changes in Title II were approved.

Some of the views expressed by Warburg were paraphrased by Owen D. Young, who summarized the case against the accused. Thus Mr. Young:

I know of no emergency, either present or prospective, which requires legislation now. Everything which can be done by the Federal Reserve System to relieve the depression either has been or is now being done. The changes proposed in Title II will add nothing to the relief of our present condition. . . . The only justification that I know of for new legislation now of the character proposed is to centralize responsibility so that we can better control another boom. I venture the opinion that we have ample time for study before that power is needed.

My chief objection, Mr. Chairman, to the pending bill—and this is a very basic objection—is that it sets up in fact a central bank and destroys the regional system under which we have operated for so long. I can see some advantages in a central bank, but I doubt whether such a basic question should be settled until the issue has been fairly made and fully debated both in and out of Congress. . . .

This apprehension is not alleviated but rather increased by the present state of our budgetary unbalance and the necessity of issuing large amounts of Government obligations. There should be no removal of checks on the bank of issue against taking Government obligations direct and not through the market. It was the exercise of the very kind of power which led to the currency and credit downfall in Germany and the ultimate destruction of the Reichsbank. I recommend that Government financing direct through the central bank, except for unusual temporary advances, be prohibited in any bill.

Since Glass seemed intent on delaying as long as possible any appearance I might make before his subcommittee, I had to use a different forum to reply to the charges that were being piled up by the witnesses he called. An opportunity for such a reply presented itself in an invitation to address the annual convention of the Pennsylvania Bankers Association at Scranton, Pennsylvania, on May 5. The speech delivered on that occasion can be read as an introduction to the testimony I finally gave before the Senate subcommittee on May 10. Thus at Scranton:

You, as bankers, know very well that individually you have little or nothing to do either with the amount of deposits your customers

leave with you or with the use that is made of those deposits. All you can do individually is to try to make as large and as profitable loans and investments as you can with due regard to safety. You are by profession retail or wholesale merchants dealing in credit, and money: you create as much money as your opportunities for lending or investing afford and as much in ordinary times as your reserves will permit. You have no power individually to influence the volume of money that is created. Your function is a private business function; but the regulation of changes in the total volume of money is a public function.

You are told that since the Reserve banks deal with your money you should have some say in its investments. But this argument will not stand examination. When the Reserve banks buy securities they do not do so with existing money; they create new money for the purpose, and this increases your reserves and your deposits. When they sell securities, you lose deposits and reserve funds. The Reserve banks, in other words, are not agencies for the investment of member-bank funds; they actually create and destroy money. Neither are open-market operations a regional or local matter. Their effect cannot be confined to a single district, but is nation-wide and affects all classes.

Some people who do not approve of the government's spending program feel that if the banking system were under banker control it might be made so difficult for the government to borrow that it would have to cease spending and balance the budget at once. That, I assure you, is the most dangerous and irresponsible argument that any group of bankers could present. Congress, which has the power to appropriate money, has also the power to find means to raise it. Make no mistake about that. If you disapprove of the government's policy you must resort to the ballot to make your opposition effective. To attempt to hinder the government in carrying out the mandates of Congress and in raising the funds necessary for the purpose is to invite disaster for the banking system.

Some of the critics of the banking bill have asserted that if the German government had not been able to borrow from the Reichsbank there would have been no inflation in Germany. This is so incredibly naïve that I cannot help feeling that those who advance this argument have their tongues in their cheeks. If the German govern-

ment was prepared to appropriate money, do you think for a minute that it would not have been prepared to change the Reichsbank law if borrowing from that bank had been prohibited, or even of issuing its own notes? Both England and France borrowed heavily from their nominally independent central banks, and the British government issued its own notes in the war.

Some people have criticized the objective of monetary policy which has been suggested in the bill to the effect that the Federal Reserve Board shall use its powers to promote conditions conductive to business stability, so far as may be possible within the scope of monetary action. It has been said that this is economic planning and that it arouses unwarranted expectations. I fail to see the force of such criticisms. It appears to me patently desirable that, if Congress delegates its money-issuing powers to the Federal Reserve Board, it should also give instructions as to the end toward which those powers should be exercised. The present objective—the accommodation of commerce, agriculture, and industry—is vague to the point of meaninglessness and in effect is no objective. I think that all of us, regardless of how much importance we attach to the effectiveness of monetary policy, agree that business stability is a desirable objective.

The further portion of the reply continued in this form during my testimony before the Senate subcommittee:

The most widespread criticism [of the] bill has come from those who see in it an attempt to subordinate the Federal Reserve System, and, through it, the country's banking system, to political control. On this subject there appears to be much misinterpretation of what the present bill provides, coupled with a lack of clear understanding of existing law and the proper relationship between the Reserve System and the government. This bill aims to clarify the powers and responsibilities of the Reserve Board in matters of national monetary policy and at the same time preserves and increases the regional autonomy of the Reserve banks in matters of local concern. There is nothing in this bill that would increase the powers of a political administration over the Reserve Board.

That matters of national credit and monetary policy should be

under public control has been recognized since the System was first proposed. For example, in the report of the House Committee on Banking and Currency in 1913 on the original Federal Reserve legislation there is a statement to this effect:

"The function of the Federal Reserve Board in supervising the banking system is a governmental function in which private persons or private interests have no right of representation, except through the government itself. The precedent of all civilized governments is against such a contention."

The statement of President Woodrow Wilson before the Congress in joint session on June 23, 1913 is even more decisive. On that occasion President Wilson said:

"The control of the system of banking and of issue which our new laws are to set up must be public, not private; must be vested in the Government itself, so that the banks may be the instruments, not the masters, of business and of individual enterprise and initiative."

The necessity of placing the regulation of monetary policy under Government control, which was clearly recognized by the proponents of the Federal Reserve Act in 1913, is the guiding principle of the legislation which is now under consideration by your committee.

There was an interruption and a colloquy here, which found Glass poised for a kill, but he withdrew from the act when the wrong word came up in this exchange:

Senator Glass: Well, of course, Governor, that is your peculiar interpretation of the language of the report [of the House Committee on Banking and Currency in 1913]. You do not emphasize the important word there, "supervisory." In other words, the Federal Reserve System was to be a *supervisory* censor body, altruistic in nature, totally devoid of any acquisitiveness, to *supervise* the administration of the law.

Senator Couzens: Do you see a distinction there, Governor?

Senator Glass: Evidently not; but I do, a very grave distinction. . . . Inasmuch as I wrote the report [of the House Committee on Banking and Currency in 1913] I know what "supervisory" means.

There could be no arguing with him on that word in the report. But the message of Woodrow Wilson before Congress was a counterweight to what Glass said. The colloquy continued:

Governor Eccles: The reading of the statement of Woodrow Wilson here [reading]:

"The *control* of the system of banking and of issue which our new laws are to set up must be public, not private. . . ."

Senator Couzens: Did you write that, Senator?

Senator Glass: What?

Senator Couzens: Did you write that, too?

Senator Glass: No. Woodrow Wilson wrote that. Nobody ever wrote anything for him that I know of. Nobody ever wrote anything for me.

Governor Eccles [continuing reading]: "must be vested in the government itself, so that the banks may be the instruments, not the masters, of business and of individual initiative and enterprise."

The authority of Wilson's statement on the concept of "control" brought the colloquy to an end, with Glass saying: "I agree to all of that. Pardon me for the interruption, go ahead."

I did, as follows:

Recognition of the importance of monetary control and of co-operation between the government and the bank of issue is not based on the belief that all economic ills can be cured by monetary action alone.

It has been asserted that the proponents of this bill, and I in particular, hold such a belief. Speaking for myself alone, I am keenly aware of the limitations of the influence of monetary measures on economic conditions. I realize that without a properly managed plan of government expenditures and without a system of taxation conducive to a more equitable distribution of income, monetary control is not capable of preventing booms and depressions. The volume and cost of money are important, however, and are the peculiar responsibility of the Federal Reserve System. That is the reason why our immediate concern in this legislation is to make the machinery of regulating the volume of money as efficient as possible so that the system

may exert its influence toward the achievement of the desired objective.

There was a moment of comic relief in the testimony when Senators Couzens and McAdoo flew at each other. This had happened several times before in the hearings, for reasons of a purely personal nature. It is my recollection that Couzens was annoyed throughout by the authoritative airs McAdoo as well as Glass assumed in consequence of their both having been Secretaries of the Treasury. Couzens let pass few opportunities to jab at them when they overexposed themselves, regardless of the point under discussion.

When I spoke of increasing the power of the Board to resist political pressure that would have the Board use its authority for purposes inconsistent with the maintenance of business stability, McAdoo asked:

"Just what do you mean by political influence? Do you think it has been exerted on the Federal Reserve Board heretofore, and if so, when? Have you information?"

Before I could reply, Couzens answered McAdoo. The record reads:

Senator Couzens: I think I can answer that one—when you were Secretary of the Treasury.

Senator McAdoo: You could not, because you did not know anything about it at that time.

Senator Couzens: Well, we can read history, you know.

Senator McAdoo: You do not mean it is history, do you?

Senator Couzens: Oh, yes; you made an historic speech on the floor of the Senate. That will go down in history.

Senator McAdoo: I hope so. Let us hope so. It had nothing, however, to do with the consideration of this question.

Senator Couzens: Oh, yes; it has to do with monetary policies. It is very important.

Senator Glass: Gentlemen, Gentlemen, let us compose the austerities of the committee.

Senator Couzens: Well, I must confess that I am terribly disturbed

when two distinguished former Secretaries of the Treasury take opposite positions.[1]

When the austerities of the committee had been composed, I paid my respects to the suggestion that action on the measure should be delayed until a committee of experts had a chance to study the whole question. Such committees of experts, I said, had been at work on Federal Reserve operations for twenty years. Their testimony and findings were available in the reports of House and Senate committees. The specific proposals in the banking bill before the Congress were based on those studies and on the experience of the depression.

> Differences of opinion on the proposals contained in Title II of this bill [I said] are not the kind that can be resolved by study. They represent fundamental differences of approach to economic problems. Proponents of this bill are irrevocably convinced of the necessity of public control of national monetary and credit policies. Opponents believe in a minimum of Government supervision and represent two different points of view; one believing that monetary control should be left with the private banks that own the Federal Reserve System; the other holding the opinion that no control at all is necessary, that the free play of natural economic forces will result in the monetary system functioning for the public welfare. These divergent points of view cannot be reconciled by argument, nor can they be clarified by future study. They call for a decision by the Congress of the United States.

[1] The reference here was to a confession Glass made earlier in the Senate hearings. On the day when James Warburg gave his testimony, a colloquy developed around the question of whether the Secretary of the Treasury should be a member of the Federal Reserve Board. Glass declared that he thought the Secretary of the Treasury should not be a member. This was one point on which we were agreed.

"When I was Secretary of the Treasury [Glass explained]—I would not say in an offensive way that I dominated the Board, but I, at least, had considerable influence with the action of the Board, and I have suspected—being like Senator Couzens, naturally of a suspicious nature—I have suspected that frequently since the Secretary of the Treasury has had too much influence upon the Board, and I do not think he ought to be there."

As I have already said, the House of Representatives made its decision on May 9. But the decision in the Senate was delayed, owing to Glass's absence. I do not believe it was a mere coincidence that he was engaged in gathering in numerous honorary degrees from leading universities, some of whose trustees had a keen interest in seeing Title II defeated. As I had occasion to remark at that time, it seemed that some people wanted to kill the banking bill by degrees.

Suddenly, however, the bankers paused in their eulogies of Glass's statesmanship, took a look at the calendar, and read it with alarm. July 1 was approaching, and this was the date on which they needed the relief expressed in Titles I and III. The effort to detach those titles from Title II had thus far failed. It was evident also that the version of Title II that the House had already approved and the one that was still unfolding in the Senate subcommittee would be so far apart that a long delay could be expected in the conference committee before a workable compromise would be reached. This would certainly hold up the enactment of the banking bill as a whole for a period long after the July 1 deadline. Yet if Titles I and III were not law on that day, many of the bankers would be hard hit. Thus, at the tail end of June there began another banker-inspired thrust to knock Title II out of the banking bill so as to ease the swift passage of what the bankers needed and wanted on July 1. Inside the Administration Jesse Jones, playing the bankers' game, tried to pressure me into withdrawing the controversial title. He was joined in this by Leo Crowley and J. F. T. O'Connor.

Though Senator Glass was ready to accommodate the bankers in this matter, it would have been useless for the Senate to act if the House did not take parallel action. That is, it would have been useless for the Senate to knock out Title II and pass what was uncontested so long as the House insisted on Title II as the price for action on what the bankers wanted. Still, as the month of June neared its end, I became fearful that despite its

past stand the House would buckle under the terrific pressure that was being generated by the bankers.

At the very last minute the bankers offered to "compromise." They proposed that the whole of the Banking Act be held over for consideration by the next Congress, but that in the meantime they should be relieved for an indefinite period from the burdensome aspect of the existing banking laws that Titles I and III were to have changed. I objected at once. If the compromise was agreed to, then the bankers would be free of the goad to take up the banking bill again. They would have the relief they wanted, while those of us who wanted the Reserve System renovated would be placed in 1936 in an even worse position than at the start of the fight in 1935. The opposition would have an added year in which to marshal its strength and to cajole waverers into joining its side. In all probability the whole of our effort would vanish in the dust of a pigeonhole.

I knew that the bankers and their friends in the Senate would descend en masse on Chairman Steagall of the House committee and would try to badger him into accepting the "compromise." When I heard of what was being planned for him, I called Steagall and hoped to tell him that he should stand his ground and insist that all three titles be dealt with in a single legislative package. But Steagall was "not taking any phone calls." Goldsborough, however, was on hand and agreed fully on the need to reject the banker-inspired "compromise" offer.

Instead, we prepared a compromise of our own along these lines: Congress should pass resolutions extending for sixty days the effective date on which the onerous provisions of existing laws would go into effect (these being the provisions Titles I and III were to ease). If the resolution was adopted, it would relieve the immediate pressure to take Title II out of the bill so that the uncontested titles could pass. On the other hand, by limiting the extension to sixty days, we could still force definitive action during that session of Congress on the whole of the banking bill.

On June 28 I hurried down to the White House for a morning bedside conference with the President. I explained the extraordinary legislative situation that had developed and advanced the formula Goldsborough and I had devised to deal with it. I then asked the President for his help in stiffening Steagall's back.

On occasions Roosevelt could infuriate his warmest admirers by his talent for procrastination, but on this particular morning he moved with speed and assurance. He leaned over for his phone and called Steagall. That call was answered. The President told him to stand aloof from the Senate compromise that was being advanced on behalf of the bankers; he told him that he should make a counterproposal of the sort Goldsborough and I had devised; that under no circumstances should he accede to the Senate's attempt to split the banking bill into three parts.

Confronted by a direct Presidential request, and backed by a strong-minded Goldsborough, Steagall did what we wanted him to do. The Senate bowed to the wishes of the House.

Resolutions expressing our compromise formula were passed by both chambers in time to give the bankers the relief they needed as of July 1. This done, the Senate passed the version of Title II that had been reported out by the Banking and Currency Committee on July 2. It was a slight improvement over the one the Glass subcommittee had approved, but even so, it was woefully inadequate and a world apart from the aggressive version that had passed the House of Representatives.

The battle area then shifted to the conference committee, with Glass on one side and with Steagall and Goldsborough on the other. Once again the experience of 1913 was repeated. When the original Federal Reserve Act was in the legislative mill, Glass recognized that the conference committee would shape the final version of the widely different House and Senate bills. In *An Adventure in Constructive Finance* he wrote of his anxieties about the Senate members who would be on that committee with him. But in 1935 his position was that of the

men he had once feared in the Senate, while his 1913 role was assumed by Goldsborough.

It is the custom of conference committees to bring to their discussion representatives of the agencies that are to administer the final version of a bill. At Glass's invitation, Judge L. E. Birdzell of the FDIC was on hand to work on Title I, while Gloyd Awalt, Deputy Comptroller of the Currency, did the same for Title III. Representative Steagall asked that Walter Wyatt, general counsel of the Federal Reserve Board, be invited in to help with Title II, but Glass refused to call him, saying that Wyatt was "personally objectionable."

This came as a surprise. The two men had been friendly for many years. It was learned that the change in Glass's attitude had occurred at the time my appointment as Governor was being considered. When Glass tried to disqualify me from that office because of my connections with the Eccles Investment Company, Wyatt wrote an opinion pointing out that Glass's stand had no basis in law. This Glass viewed as a mortal affront.

He did, however, permit the use of Gloyd Awalt in connection with Title II. Awalt was on friendly terms with Wyatt, as he was with me, and he kept Wyatt informed of all developments within the committee in so far as the drafting of Title II was concerned. But Awalt could not be expected to have the same interest in the fate of Title II as would a representative of the Federal Reserve Board who operated as a direct party in all conference discussions. Nevertheless, the disadvantage of the arrangement had a beneficial effect that was not foreseen by the Senator. It led Representative Goldsborough to assume personal responsibility for the fate of Title II and to enter into even closer working arrangements with me.

Before Goldsborough went into the conference committee, I listed all the provisions in the House bill and also weighed the relative importance of each provision. In a parallel column I listed the points in the Senate bill and again weighed them in the order of their relative importance. I then advised Goldsbor-

ough to cling to the first five basic provisions of the House bill even if he had to capitulate on all other points. Goldsborough met with me after each conference to discuss the strategy of give-and-take for the next day. I doubt whether any other members of the conference committee had weighed the relative importance of each provision. Glass certainly did not do so. Each provision in the bill was a self-contained good for him, isolated in its effect from any other provision. Thus, when he gained "concessions" on a majority of individual points, he felt he had won a decisive victory. He did not realize that the fewer points on which Goldsborough had his way had a combined importance that was at least equal to the sum of Glass's individual gains.

Still, at one point Goldsborough told me that Glass refused to go on with the work. "The old man," Goldsborough explained, "said I insulted him and that he won't meet again until I make a public apology. The banking act has flown out of the window. I'll be damned if I apologize!"

"Now wait a minute, Alan," I said. "We both want this legislation more than we want to keep our pride intact. What difference does it make if you do what Glass demands? If it will satisfy him, then apologize. You have done such a masterful job up to now that you simply can't let the old man's pique stand in the way of your final accomplishment."

Goldsborough agreed to make a public apology and the next day rose on the floor of the House of Representatives for that purpose. Few people knew what had inspired his words, and even they were mystified by what he said. It was one of the more backhanded apologies in the history of debate in the House.

Later, when I asked Goldsborough whether he had apologized to Glass, he said: "Hell, no! But the old man accepted it."

Thus the conference committee resumed its work.

Glass was to say that he rewrote the whole of Title II in the Banking Act of 1935 as it was finally adopted by both the Senate and the House. Since the upshot of the conference commit-

tee was a workable bill that set up a far more effective central banking mechanism than had previously existed, and since it firmly established the authority of the Federal Reserve Board as the central source of direction for the Reserve System, no purpose could be served in disenchanting Glass.

The bill that was sent to the President for signature provided for the following:

First: Reorganization of the Federal Reserve Board.

The name of the Federal Reserve Board was changed to the Board of Governors of the Federal Reserve System. Effective February 1, 1936, the Board was reduced from eight to seven members, appointed by the President and confirmed by the Senate. I had originally argued for a reduction of the Board to a membership of five. The House bill, on the other hand, left the composition of the Board unchanged, with six appointive members, and the Secretary of the Treasury and the Comptroller General serving as ex officio members. But in the final version of the bill, the ex officio memberships on the Board formerly held by the Secretary of the Treasury and the Comptroller General were abolished altogether. This was done on Glass's instigation.

As I have shown, Glass felt that the political independence of the Board would be increased if the Secretary of the Treasury was not a member of it. He had no original intention of taking the Comptroller of the Currency off the Board. Down to the very last days of conference-committee negotiations the Comptroller was included in the proposed organization of the new Board. But when Morgenthau heard that his ex officio membership was to end, and that of the Comptroller (who was merely a Bureau chief in the Treasury Department) was to continue, he was deeply offended. And so it came to pass that the Comptroller of the Currency was also removed from the Board as the price for removing the Secretary of the Treasury. This is one case where the public result of Morgenthau's fragile feelings was highly beneficial.

The House version of the bill had struck out the requirement of the 1913 Reserve Act which provided that in selecting members of the Board the President should have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests and the geographical divisions of the country. It substituted a requirement that they should be well qualified by education or experience or both to participate in the formation of national economic and monetary policies. This change, however, did not survive the conference committee. Specifications for the Board members continued to call for their selection on a geographical basis and with due regard to securing representation of major occupational groups.

At the same time, however, the salaries of Board members were increased from $12,000 to $15,000 a year, which placed them on an equal plane with Cabinet officers. It was hoped that in this way the caliber of men serving on the Board would be raised and their independence would be strengthened. As part of this same effort to achieve independence for Board members and to assure the continued vitality of their work, the House version provided that members who had served at least five years should be retired at appropriate pay on reaching the age of seventy. The funds for this purpose were to be obtained through assessments on Federal Reserve banks. This provision, however, did not survive the conference committee.

Appointments to membership were scheduled for periods of from two to fourteen years, so that not more than one would expire in any two-year period. Thereafter (after the first group of appointees had run their cycle) each member would hold office for fourteen years unless removed for cause before that time by the President. One member of the Board was to be designated by the President as chairman and would be the Board's active executive officer; another member would be designated as vice chairman, both men filling their offices for terms of four years.

Second: Chief Executive Officers at the Federal Reserve Banks.

The new law recognized the way the executive authority in Federal Reserve banks had gravitated from the chairmen to the governors of those banks. It therefore provided a legal foundation for an existing condition. By law, the Governor and Deputy Governor now became the chief executive officers in the banks, their titles being changed to President and First Vice President as of March 1, 1936. Moreover, while the Federal Reserve Board formerly had no power over their appointment (except the power to approve their salaries), under the new law the president and first vice president were appointed by the board of directors of each Federal Reserve bank for terms of five years, subject to approval by the Board of Governors of the Federal Reserve System. Glass, however, would not accept a proposal regarding the chairman in the banks. We wanted to separate the functions of chairman and Federal Reserve agent. The chairman would be an honorary official without salary. In this way executive responsibility would be centralized in the president and vice president instead of divided between these two on one side and the chairman on the other. As a result of Glass's objection, the new law made no change in the prevailing status of the chairman's office. Nevertheless, we achieved the results we desired. Since the Board of Governors still retained the power to appoint the chairman who was also Federal Reserve agent, we proceeded to make the appointments on an honorary basis. In this way we saved more than $300,000 a year in salaries and at the same time created a better organization in each bank. The routine duties of Federal Reserve agent continued to be performed by the assistant agent, as before.

Third: New Federal Open Market Committee.

Effective March 1, 1936, the old Federal Open Market Committee, composed of the twelve governors of the Reserve banks, was replaced by a Federal Open Market Committee composed

of seven members of the Board of Governors of the Federal Reserve System and five representatives of the twelve Federal Reserve banks. The five Federal Reserve Bank representatives (together with one alternate for each) were to be selected annually by the boards of directors of the Federal Reserve banks: one by Boston and New York; one by Philadelphia and Cleveland; one by Richmond, Atlanta, and Dallas; one by Chicago and St. Louis; and one by Minneapolis, Kansas City, and San Francisco. Meetings of the committee were to be held in Washington at least four times a year on the request of the Chairman of the Board of Governors or of any three members of the committee.

The composition of the Federal Open Market Committee was not the sort I wanted. In the House version of the bill the Open Market Committee was formed of Board members alone. The governors of the Federal Reserve banks would annually elect five of their number to serve in an *advisory* capacity to the Open Market Committee. The Board would be required to consult with this latter group before making any changes in open-market policy, discount rates, or reserves required of member banks. But after doing so, the Board would be empowered to prescribe the open-market policy of the Federal Reserve System, and this policy would be binding on all Federal Reserve banks.

Though the House version in this respect ran closer to what I felt was desirable than did the final bill that emerged from the conference committee, the new law at least established the principle that open-market operations would henceforth be initiated in Washington. On this general point Glass and I saw eye to eye, though he disagreed sharply on the composition of the instrument that would advance it. It is my belief that he never fully grasped the importance of open-market operations, since they were of little significance when he framed the original Federal Reserve Act. The new law represented a further net gain in its provision that no Federal Reserve bank would be permitted to engage or decline to engage in open-market opera-

tions except in accordance with the directions and regulations of the committee. Despite the many objections I raised to the composition of that committee, the new law at least centralized *authority and responsibility* in that body. With the added provision that records were to be taken and kept of each vote on open-market policy questions, and with a full account of such actions being submitted annually by the Board of Governors to Congress, there could no longer be any buck-passing.

Fourth: Changes in Reserve Requirements.

Under the old law the Federal Reserve Board could increase or decrease reserve balances that member banks were required to maintain against their demand and time deposits. But it could do this only during an emergency declared to be such by an affirmative vote of at least five members of the Board, with the President's approval. With the adoption of the new law, the Board by an affirmative vote of four members, and without the prior declaration of an emergency or the approval of the President, could change reserve requirements for both demand and time deposits in member banks. It could do this provided the amount of reserves required to be kept by any bank was not decreased below the amount then required by law, or increased to more than twice that amount.

I had argued that there should be no limit set on the character of the changes in reserve requirements. But Glass objected, and his will prevailed. Nevertheless, the new authority granted to the Board recognized its competence to determine these questions without the need to resort to a political decision, represented in the prior consent of the President.

Fifth: Discount Rates.

The new law made no change in the provisions affecting discount rates, except to require Federal Reserve banks to establish those rates with the approval of the Board of Governors every fourteen days, or more often if deemed necessary by the Board. This change had its origins in Senator Glass's skimpy knowledge of what the procedure entailed in practical terms.

Sixth: Federal Reserve Bank Loans to Member Banks.

Under the old law, Reserve banks could not make loans to member banks on anything but eligible paper (except under certain very extreme conditions prescribed by an amendment in 1932), with unfortunate results that have been described already. The House version of the bill expressed my desire to shift attention away from "liquidity" and center it on "sound assets," the latter qualifying as eligible paper for the purpose of bank loans. Senator Glass objected to the substitution of the term "sound assets" for "eligible paper." But the bill as finally approved nevertheless represented a step in the right direction. It granted permanent authority to any Federal Reserve bank, under the regulations of the Board of Governors of the Federal Reserve System, to make advances on any "satisfactory" as well as eligible paper to any member bank.

Seventh: Real Estate Loans of National Banks.

The changes in this provision were in line with my expressed desire to permit banks to make longer-term loans and thus put a greater portion of their savings to work. The old law restricted real-estate loans to the area in which the national bank was located, and restricted the kind of real-estate loans the banks could purchase. These restrictions were removed or liberalized.

Eighth: Admission to Membership in Federal Reserve System of State Banks with Impaired Capital.

Under the old law, the Federal Reserve Board could not admit to membership in the Reserve System any state bank with impaired capital. The new law authorized the Board to waive any or all requirements relating to the admission to the System of state banks that had deposits of one million dollars or more and that were to become members of the Federal Reserve System before July 1, 1942 so as to gain the deposit insurance of the FDIC. The law also eased the restriction upon the admission of other banks with impaired capital when a part of their capital consisted of preferred stock, or when they had outstanding capital

notes or debentures of the kind that could be purchased by the Reconstruction Finance Corporation.

Ninth: Simplified Administration.

The new law introduced technical changes of the sort that relieved the new Board of Governors of much administrative detail and enabled it to concentrate more readily on important policy questions.

A change of great significance that was included in the House version of the bill but did not survive the conference committee involved a rewriting of the mandate for the Federal Reserve Board. The original one, which called on it to accommodate the monetary and credit needs of commerce, agriculture, and industry, was too vague. With the strong support of Congressman Steagall, I had this mandate rewritten so that the House version required the Federal Reserve Board "to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment so far as may be possible within the scope of monetary action and credit administration."

The purpose here was to let the people of the country know what to expect of monetary management, and yet to leave the Federal Reserve Board discretion as to the choice of means. It would have furnished criteria by which the public and its Representatives in Congress could assess the merits of monetary policy. It would have provided assurance that monetary control would be exercised in the interests of the nation as a whole. But Glass successfully resisted the proposed change in the mandate, and the old one of 1913 remained in the bill. What I asked for in 1935 was a preview of what ultimately became the declaration of national policy that Congress in the Employment Act of 1946 set down for the government as a whole.

The Banking Act of 1935 was signed by President Roosevelt in August. As when the original Federal Reserve Act was signed in 1913, the several pens used for the ceremony were given as

mementos to the men who had played a major part in getting the new legislation enacted. When Roosevelt gave one of these pens to Senator Glass, someone present commented in a stage whisper:

"He should have given him an eraser instead."