2. Competition in Laxity

ON NOVEMBER 12, 1936 I went with high hopes—and a memorandum in my briefcase—to a private White House lunch. With the New Deal's great victory one week before, those of us in public office, each in his own sphere, felt we could at last write the full ticket of things we thought would best serve the needs of the country. Let the President merely write his "O.K." across the head of that ticket and it would be just a matter of time before the new Congress passed what was wanted.

What I wanted was a unified banking system for the nation.

My luncheon conversation with the President on this theme was the first of many like it spaced over the next eight years. The memorandum I left with him summarizing what I said was also to be the first of many of its kind. In the years that followed, there were times when Roosevelt seemed ready to speak what I waited to hear; but at the last minute he either changed his mind of his own will or was induced to change it because of political considerations. Nothing came of this whole effort during his Presidency nor during the Administration of President Truman up to the time of this writing. Yet I feel that the story of this failure merits telling—in two brief sections—because the problem I put to Roosevelt on November 12, 1936 remains in its essential details an acute one to this day.

The problem itself can be simply stated in a few interrelated questions:

How can the Reserve System fulfill its responsibility of helping to maintain economic stability when the control of the nation's banking system, through which it is supposed to work, is divided between state and federal authorities, and among fed-

eral authorities? And again, how can the Reserve System bring the banking system under its influence when the law allows state banks to get FDIC insurance but does not require them to join the Reserve System? Or when it imposes burdens on members of the Reserve System—most notably in the matter of control over reserves—of which nonmembers are free? Or when the power of federal authorities to conduct bank examinations and issue regulations is divided among the FDIC, the Comptroller of the Currency, and the Federal Reserve Board, each of which has a different interest to be served by the examinations it conducts and the regulations it issues?

The answer to these questions, too, seemed simple enough, at least to me. So long as the Federal Reserve is charged with primary responsibility for monetary and credit management, it is only reasonable to give it the means with which to carry out its responsibilities. In specific terms, if state banks choose to be members of the FDIC and to enjoy the benefits offered by that government agency, then they should also be obliged to join the Federal Reserve System, where they would be subjected, as are national banks, to credit restrictions such as those affecting reserve requirements. Furthermore, it seems only reasonable to consolidate bank examination and regulatory functions under the single roof of the Reserve System since these functions are directly related to the maintenance of economic stability, with which the System is primarily concerned. Clearly, if the System is committed to a policy of monetary ease in times of depression, then bank-examination policies should follow a similar commitment. Or if the System is committed to a policy of credit stringency in order to curb an imminent inflation, then bank-examination policy should be brought in line with that same intention. Neither action was possible, however, so long as examinations were also devised by the FDIC and the Comptroller, whose personnel were disposed to follow the same policies regardless of prevailing economic conditions.

The memorandum that served as the basis for a fuller discus-

sion of the foregoing points with the President concluded with these words:

I am taking the liberty of presenting this broad problem at this time because it would be useless to go forward with a program of cooperation with the Treasury and the Federal Deposit Insurance Corporation unless the Administration feels that course to be desirable. If the revisions suggested constituted a reform such as would be disturbing to the country, or designed to create serious political difficulties, or would tend to interrupt the recovery program, I would not venture to urge it at this time. However, I believe that the program outlined would be welcomed enthusiastically by the most competent banking and business opinion throughout the nation as a contribution toward consolidating and perpetuating the recovery movement. And if carried through as I believe it can be, I am convinced that such a program will go down in history as among the outstanding achievements of this Administration.

While Roosevelt listened to what I had to say, he gave me no pledges of support. He had other things on his mind. A few days after this luncheon he left for a South American cruise. Though I saw him again on December 17 in a different connection, he made no mention of our earlier talk, but I continued to hope that the talk might be echoed in his State of the Union address. I was to be disappointed in this.

When the new Congress met in January 1937, one of the first bills sent to it was "A Plan for the Reorganization of the Judicial Branch of the Government," or, as it was called in curbstone language, "the Court Packing Scheme." Here, indeed, was "reform that disturbed the country and created serious political difficulties." When the wrangle over the Court plan sputtered to its acrid end, the climate in Congress had undergone so marked a change that anything coming from the President's desk stamped with the word "reorganization" was howled down with the word "dictatorship."

I by no means trace Roosevelt's later inactivity in the banking field solely to his wounds in the Court fight. It will be remem-

bered that this fight was followed by another over the appointment of Senator Hugo Black to the Supreme Court. And this, in turn, was followed by the onset of the recession of 1937–8.

Political lightning and a cloudburst of economic trouble may have induced the President to seek protection under a do-nothing ledge. Theretofore, he had been able to meet political storms by pointing to an increase in economic sunshine. But when the economy suddenly grew dark, he was probably skeptical of any advice coming from people like me, whose views appeared to have been repudiated. It is altogether possible that he may have seen in my plea for bank reform nothing more than a bid for pure power in lieu of any better answer to the nation's troubles.

But even this last explanation does not account for his inertia in the banking field. The more compelling reason seems to be this:

The dual banking system in which part of the banks belonged to the Federal Reserve System and part to the state banking system alone was held in nostalgic affection by Roosevelt. In his view, the state nonmember banks represented the small, democratically controlled institution, responsive to local needs, with officers who had the welfare of the home folks at heart. For some curious reason the Federal Reserve, on the other hand, represented for him the banking giants, and in a way, he saw the Banking Act of 1935 as a means of curbing the giants. To unify the whole banking system, however, implied two things in Roosevelt's mind. First, it implied the end of the state banking system. And second, by forcing the small banks into the Reserve System, it implied a condition favorable to their destruction by the giants.

In judging the President's view, I do not think it would be uncharitable to use the word "naïve." In the first place, three fourths of Reserve System members were also small banks, both state and national. In the second place, there was nothing in my proposal for unification which called for an end of the

state banking system. As I've said, I merely proposed that we should eliminate the conflict of jurisdiction among three federal banking agencies so that regulatory, supervisory examination and investment policies for the banking system could be co-ordinated and made supplementary to over-all monetary and credit policies. This would in no way remove the right of forty-eight states to continue to charter and examine banks and, as they saw fit, to bar or permit branch banking. Bank unification would require all banks that got the benefits of FDIC to assume the responsibilities of membership in the Federal Reserve. They would no longer have the option of joining the FDIC without assuming the responsibility of membership.

Whatever reasons restrained Roosevelt from doing anything about bank unification, I have more positive impressions to account for bankers' opposition to unification. Their reasons seemed to be based on the old principle of divide and conquer. They felt that government banking agencies, if they remained divided, would be much less effective in getting needed legislation and in carrying out such adequate and uniform regulatory and supervisory policies as might be required from time to time.

Unfortunately, however, that sort of weakness fosters results directly contrary to what bankers want. Political forces will increasingly dominate activities in the field of money, credit, and banking as separate and weak government agencies are forced to bow before the political pressures of the moment.

The only real security against these forces—all of which aim to get the short-run benefits at the price of long-run trouble—lies in a single, strong, independent, nonpolitical, but public body that would attract to its membership the best talent in the land; that would have the respect of the country as do the federal courts and the Interstate Commerce Commission; that would have continuity in its position of independence; that, because of this, could make decisions free from the political winds that call for expedient decisions rather than right ones in the field of monetary and credit policy. This, in its ultimate yield,

is what true unification would produce. It would increase and not decrease the strength of the private banking system.

I may be quite wrong in stating this precondition of independence and strength for the system of American banking, yet this is the best judgment of which I am capable. It is based on private experiences in operating unit banks, branch banks, state nonmember banks, state member banks, national banks, and bank holding companies, and on the expectation of returning to the field of private banking. And it is also based on what I have seen of the whole pattern of our economy from the observation post provided by seventeen years of service on the Reserve Board.

So much for this digression.

While Roosevelt did not want to initiate organic banking reforms, in the months that followed my conversation with him other energetic hands dropped their peculiar banking measures into the Congressional hopper. From time to time I would receive notes from the President informing me of the latest bit of crank legislation that had been placed before Congress with the most respectable sort of backing. One such note, sent me on July 6, 1937, expressed the President's discomfort under the sort of pressure to which his own do-nothing policies exposed him:

> This [bill, he wrote] is becoming quite a hot potato! How do you think I should answer it? Of course, I cannot in any way object to hearings on the Bill by the [Banking and Currency] Committee.

The President in this one case had an easy way out. He could inform the influential Congressman who wanted his support for the bill that since the Administration had decided against recommending fundamental banking legislation in that session of Congress, it would be inappropriate to ask the House Banking and Currency Committee to give special consideration to the bill in question. But easy ways out became more difficult to find with the onset of the recession at the end of August 1937. As the recession stretched over to the spring of 1938, a rising

flood of crank legislation to deal with the recession by means of monetary and banking magic swept over the Congress.

The President could no longer remain under a protective do-nothing ledge. At my continued urging, he at last moved from it in the first week of April 1938. On the 25th of the preceding month he had received a telegram from State Senator Nelson W. Cheney of New York. It was sent to me for a draft reply. In his telegram Cheney had complained that small country banks that were "trying to loan to your average or needy citizens" were being hamstrung by examiners who "threw these small loans out of the window" because the customers could not issue "wonderful statements" regarding their financial position. He asked: "Why cannot the authorities be reasonable and let the small banks help our people?"

On April 6, I sent Roosevelt the draft reply he wanted. But at the same time I attached a memorandum noting that Cheney's plea illustrated what I had mentioned "in the course of conversations in the past year or two, namely, that there should be a unification of the banking system and consolidation of Federal supervisory functions." The memorandum continued:

> The real remedy, in my opinion, for the basic trouble about which the Senator complains is to put examination functions under the same tent and to see that examination policy takes account of changing economic conditions just as monetary policy does.

The memorandum reached Roosevelt at a time when he was putting the finishing touches on a message to Congress specifying the steps needed to check the recession. Accordingly I suggested that his message include a proposal for the unification and liberalization of bank-examination policies. He agreed to do this and asked for draft paragraphs that could be used. They appear in his message of April 13 with but slight change.

Following this message Roosevelt, at my suggestion, directed Secretary Morgenthau to bring together representatives of the

FDIC, the Comptroller of the Currency, and the Federal Reserve to reach an agreement on a joint bank-examination policy.

What happened next anticipated an incident during the war years when the President sighed wearily and said to an importunate friend: "Just because I'm President and order a thing to be done doesn't mean it will be done." Similarly, though Roosevelt "expected Federal banking supervisory authorities to co-ordinate and liberalize their examination policies," his mere words did not bring that to pass. In an intrafamily row the Treasury Department, the FDIC, the Comptroller's Office, and the state bank examiners presented a united front of opposition to Federal Reserve proposals. No headway was made for several weeks.

Under these circumstances, more public discussion had to be stimulated. To this end, I accepted an invitation to address the New Jersey Bankers Association in Atlantic City on May 13. The address was divided into two parts: one that detailed the economic accomplishments of the New Deal up to that date; and a second part that argued the need for changes in bank-examination policies. But it so happened that the first part came in for extensive comment and attack. The second part was ignored.

Meanwhile, guerrilla warfare continued to rage. Being in a minority of one against all other figures in the Administration's money and banking apparatus, I reached for support in any quarter I could find. The need to do so was distasteful, and the fact that I did so must have troubled the President. Nevertheless, I was so immersed in the effort to check the recession that I was blind to personal niceties whose observance represented obstacles to recovery. On June 16, 1938, as a climax to an exchange of letters dealing with other matters, I received a powerful assist from Senator Arthur H. Vandenberg.

Senator Vandenberg had for some time been discomforted by his life within range of Father Coughlin's radio at the Shrine

of the Little Flower in the Senator's state. Though he made no public reference to this, on May 31 the Senator wrote me to say:

> Every depression produces an inevitable crop of agitators out in the country who have no trouble in whipping up a substantial attack upon the American monetary system. Our present experience is no exception to the rule. My part of the country is once more full of earnest souls who familiarly insist that we should rid ourselves of the Federal Reserve System and—of course—substitute greenbacks for bonds.
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> I have my own answers for them. . . . I am not suggesting that you should take cognizance of all this agitation or that you should join issue with any of these agitators. But I should like to see the Federal Reserve System provide—abstractly—what it conceives to be the authentic answer to these attacks upon its own foundations and its own existence. Of course I am assuming that you can produce an answer.

I asked Senator Vandenberg for time "to work out a simple statement which would be useful" in exploding the propaganda of all those "who are hounded by the money cranks." And on June 14 I mailed him what he wanted. The bulk of the statement, consisting of eleven pages, single-spaced, was devoted to an analysis of the existing money mechanism of the country. But without crowding the margins, it was possible to fit into this bulk an aside dealing with the effect bank examinations had on the flow of credit. Only in this way could I prudently answer the Treasury in public and point out how the Comptroller's restrictive rules for bank examinations stopped up the ready flow of credit into productive business channels.

My letter was one of the few times in the New Deal years when an official of the government absolved banks from economic sins and pointed the accusing finger at the Administration itself. Needless to say, Senator Vandenberg, who at that time was freely mentioned as a likely candidate for the Republican Presidential nomination, promptly inserted in the *Congressional Record* for June 16 the whole of what I'd sent

him. Moreover, he added a warm word of praise for its text. This time, while the full description of the nation's money mechanism was ignored, an alerted press leaped on the passages devoted to faulty examination procedures. The captions over news stories, picked at random from my scrapbook, tell of the open fight that followed:

EASING OF BANK LAW URGED BY ECCLES TO RELEASE CREDIT: WRITES VANDENBERG BILLIONS ARE DAMMING UP.

GLASS OPPOSES EASING CREDIT.

SHOWDOWN SET ON RULES FOR BANK CONTROL.

BANK RESTRICTIONS ARE TOO SEVERE ECCLES ARGUES: FAVORS RELAXING RULES DURING DEPRESSIONS AND TIGHTENING THEM IN BOOM TIMES.

CRITICS ANSWER ECCLES ON BANK EXAMINATIONS; OTHER AGENCY OFFICIALS SAY LIBERALIZATION PLAN NOW READY GOES AS FAR AS IS CONDUCIVE TO SAFETY.

MORGENTHAU ECCLES IN BANK CONTROL FIGHT. ROOSEVELT REPORT TO BRING SHOWDOWN. HOPED FOR COOPERATION SEEN ENDED BY RESERVE BOARD CHAIRMAN'S NEW PLEA FOR LIBERALIZATION.

TREASURY GIVES ECCLES 48 HOURS TO O.K. BANK PLAN. RECOMMENDATIONS TO WHITE HOUSE MAY OMIT APPROVAL OF RESERVE HEAD.

F. D. MAY HAVE TO SETTLE ROW OVER BANKING POLICY.

AGREE ON A POLICY TO EASE BANK LOANS. EACH SIDE GIVES GROUND.

LIBERALIZED BANK RULES MAY FREE 3 BILLIONS CREDIT. TREASURY ADOPTS CHANGES DESIGNED TO ASSIST SMALL BUSINESS.

This whole controversy in print ran for six days before it was ended. And, as the captions suggest, it was enlivened from time to time by ukases issued from the Treasury Department, which set deadlines for an agreement. Having aligned himself with the position taken by the FDIC and the Comptroller of the Currency, Morgenthau made it plain that unless I saw the light,

he would issue his report to the President with or without my assent.

"The Comptroller of the Currency and the Secretary of the Treasury," he told the press on June 20, "have just one thing in mind and that is protection of the depositor." By implication, this meant that the position I had taken for a liberalization of bank-examination policies was an invitation to profligacy. For the sake of dullards who might have missed this interpretation, Senator Glass announced sadly: "Eccles proposes to let the banks do as they damn please with their depositors' money."

Ultimately, it was Morgenthau's group that gave ground. Our own concessions were minor ones. But even after the agreement was reached, there was a whip-lash comment from Treasury sources that the purpose of revising bank examination procedures was "to protect the depositors." This, it seemed to me, was not only politically inept but it in no way corresponded to the truth of what had been done. Referring to this statement, I wrote the President on June 24 to say:

> As far as it goes that would be all right, though it implies that the Government has not been protecting the depositor adequately and that action being taken now is a tightening up. However, to announce this program as of no more significance than that would be to lose sight of the far more important aspects and the effect that this step would have in helping to stop the deflationary trend resulting from contraction of bank credit under the pressures of previously prevailing bank examination policies and restrictive investment regulations. Since it is essential to reverse this trend, I feel that it would be most unfortunate not to bring out the more fundamental significance of the changed procedure and to link it up with the rest of your program when it is announced to the public. If the banks will avail themselves of this broader opportunity for service to the community and for profitable use of some of their abundant, idle funds, the necessity will be diminished for creation of government agencies to furnish credit facilities which the banks should provide.

The principal change in the new procedure corresponded with my own view that the "slow" classification of bank loans should be abandoned; that bank investments should be considered in the light of their inherent soundness, as judged by their average over a number of months, rather than on the basis of day-to-day market fluctuations. To bring physical facts out from under the optical distortions of words that sought to describe them, word classifications of loans were abandoned altogether, and numbered classifications were substituted in their stead. Each number contained a definition of the type of assets that would be grouped under it, with a corresponding set of rules that struck a balance between the need for care in judging a bank's soundness and the need for resiliency in the grant of loans.

In this way banks could be encouraged to place the emphasis on soundness rather than on liquidity or quick maturity. With this shift of emphasis, member banks of the Federal Reserve System could purchase investment securities (of sound value or with repayment reasonably secured) issued by established commercial or industrial business or enterprises that could demonstrate their ability to service such securities. It was not required that the securities be offered for public distribution or that they must be readily marketable. It was provided, however, that they mature not later than ten years after the date of issuance and that seventy-five per cent of the principal be amortized by maturity through substantial periodic payments, none of which would be required during the first year. In its broadest conception the shift of emphasis accorded with the fact that the soundness of the banking system as a whole depended in the last analysis on the soundness of the country's business and industrial enterprises.

Though these simple changes represented a fundamental reform in examination procedure, it was one thing to get them down on paper and another to apply them on a day-to-day basis. Sympathetic administration could not be expected when there

were sharp differences in interpretation of an agreement fashioned in the first instance out of widely divergent views. Moreover, even if full co-ordination of examination policies were achieved among federal supervisory bodies—and this was more than could be expected—it would represent but one aspect of the problem of bank unification.

Following the congressional elections of 1938, I once again pressed for action on the larger aspects of the problem. The President at this time—November 18—appointed an advisory board to canvass fiscal and monetary problems relating to production and national incomes. Secretary Morgenthau was made the head of the board, whose other members included Daniel W. Bell, Acting Director of the Budget, Frederic A. Delano, chairman of the Advisory Committee on National Resources, and myself. Our immediate job was to help shape the new budget. We also formulated related proposals affecting taxes, capital expenditures by private sources, a flexible public-works program that could be contracted or expanded according to economic needs, the debt structure of all levels of government, and the armament program that was then under way.

Soon after he announced the formation of this board, the President left for his Thanksgiving holiday at Warm Springs and I was invited to join him there on November 26. In advance of this trip, I wrote another memorandum stating the case for a unified banking system and how it could better serve any policy decisions reached by the newly appointed advisory group on fiscal and monetary problems. Though the text restated all the arguments I had used two years before, it differed in two respects. First, the memorandum was written in what amounted to a take-it-or-leave-it mood. Second, it reflected a more sober appraisal of political realities and, on that basis, suggested a different political approach to the problem of unification.

Having this memorandum before me at Warm Springs, I

told the President very frankly that "I would not wish to continue in the Chairmanship of the Federal Reserve Board, which in the minds of the public and of Congress is charged with great responsibility for exercising controls over domestic credit and monetary conditions, when, in fact, as it exists today, the Board's powers and authority are largely limited to the performance of mechanical functions. Nor was I disposed to create the impression that upon the termination of the bank holiday the banking system was sound and could satisfactorily deal with all monetary and credit problems."

I reminded the President that my own term as Chairman of the Board of Governors would expire in February 1940. While my reappointment might be out of the question for other reasons, I wanted to "bring to his attention well in advance of the end of my term the necessity for remedial action before problems became acute and there was a flareback of criticism. I would not want to put the President in a position of considering for reappointment an official who had so far failed in discharging the responsibilities of his office."

When the President heard this passage read to him, he correctly interpreted it to mean that I intended to leave the Administration once my term was up as Chairman unless changes were made of the sort that would permit the Board of Governors to do the work expected of it. This, then, was the take-it-or-leave-it aspect of my memorandum.

As for the change in political tactics it reflected: with the exception of the change in examination procedures, Roosevelt, as I've said, kept aloof from the whole bank-unification project. I therefore felt that responsibility for assuming the initiative should be placed squarely on the shoulders of Congress, which action would bypass the sort of difficulties Roosevelt had experienced with other reorganization plans.

Accordingly, I at this time suggested to the President that he might include several paragraphs in a message to the new Con-

gress which would in a general way indicate the need for further constructive banking legislation. Then, as a supplement to his action, the Board of Governors in its annual report to Congress would make a fairly complete statement of existing conditions in the nation's banking structure. The report would express the Board's willingness to appear before appropriate congressional committees to advise with them on the sort of legislation that would remedy the existing defects.

I preferred this course to an alternative one of trying to bring about an agreement beforehand among interested federal agencies on a specific piece of banking legislation. If the latter action was taken, it would be regarded as an Administration bill and would be attacked on partisan grounds. Moreover, it would give offense to members of Congress, who are jealous of their prerogatives and who rear up when a single agency presents a cut-and-dried bill that Congress is asked to pass. If the President requested Congress to assert its prerogative and work out necessary legislation, hostile members would not be able to sidestep their responsibilities, and all agencies interested in banking legislation would have an equal chance to present their views.

I told the President that if for any reason the Board of Governors as a whole did not want to issue the sort of report indicated, then the Chairman of the Board should do so on his own. Furthermore, if I was called on to testify before a congressional committee on what needed to be done, I would make it clear that I was not wedded to any one solution, but only to the need to get a solution. At least, as a basis for discussion, I would be prepared to compromise between need and the political impediments to getting any action at all. The plan for unification I suggested at this time to the President has no current interest and I shall therefore avoid its details. It is enough to say that neither at this nor at any later time when I advanced other plans to bring about a unification of the banking system was there a single word which suggested that the state's right to

charter a bank should be terminated, that branch banking should be forced on the country, or that the small banker should be forced out of business.

At Warm Springs in November 1938 Roosevelt's response to my arguments was a mixed one. Though he neither approved nor disapproved of the specific plan of unification suggested at that time, he at least approved of the suggestion made at the opening of our conversation: that the Board of Governors in their *Annual Report* for 1938 invite congressional attention to the defects in the existing bank structure and by implication request Congress to remedy those defects. The President had nothing to lose if we did that. The gain lay in the fact that it placed full responsibility on Congress for any action—or lack of it—that followed the report.

The 1938 *Annual Report* of the Board of Governors, issued at a later date, reflected the decision reached at Warm Springs. But, unfortunately, its effect was partly nullified beforehand when on December 2, 1938 the *Wall Street Journal* carried a long story that evidently had been planted with it. Its heading read:

ECCLES BANK LAW CHANGES BROADEN CONTROL OF CREDIT. TENTATIVE AMENDMENTS SUBMITTED TO TREASURY DEPARTMENT FOR COMMITTEE STUDY.

The character of the account underneath this heading made it appear that a banking measure, tailored to my wishes, was about to be handed to the Congress by the Administration. Thus, contrary to the Warm Springs decision whereby the duty to take the initiative in required bank legislation was to be pinned on Congress, the news story placed the initiative with the Administration, and particularly it placed it with me. The alarm was sounded that another high-handed "Eccles bill" was in the works, which decent citizens were duty-bound to resist.

It takes no wild stretch of the imagination to understand that men in the Comptroller's office found it to their interest to

raise the alarm. With patriots running to their aid, the inhabitants of the Comptroller's office could be secure in the possession of powers and privileges they might otherwise be asked to give up in the event that banking unification became a reality. Nor does it take any stretch of the imagination to understand that the men who rushed to the support of the Comptroller's office were bankers. Rallying around the attractive slogan of "Independence for the Comptroller," the bankers, as I have said elsewhere, thought they could serve their own interests by keeping government banking agencies weak and divided.

The news story and the rush to arms that began after its publication seemed to have forced a change in Roosevelt's own thinking. I received intimations toward the latter part of December that he was prepared to associate himself with a specific banking measure drafted for him by Treasury officials, and representing provisions of the sort that served the Comptroller's interest in self-preservation, as well as a similar interest held by the FDIC. Accordingly, on December 22, I tried to head this off by writing to the President:

In accordance with the memorandum I discussed with you at Warm Springs with regard to procedure for dealing with the banking situation, I am enclosing a paragraph that you might use as the basis for a reference to this important subject in your message to Congress.

As I said when I was at Warm Springs, I feel that it would be a great mistake to present to Congress a specific bill to deal with the better co-ordination and further strengthening of the banking system which is urgently needed. I feel that the Board would be remiss if it did not report to Congress the facts as to the present improved but still highly unsatisfactory situation. It seems to me, therefore, that it is highly desirable to have you suggest to Congress the desirability of dealing further, as Congress may see fit, with the existing problems.

I would very much like to see you put squarely up to Congress the responsibility for acting or failing to act, not only in improving the

present unsatisfactory setup with respect to Federal banking supervision, but in providing authority to deal with such emergencies as may arise in the future which we are in no position now to cope with adequately.

The paragraphs I drafted joined a Presidential announcement of the end of the bank holiday with a request that Congress give further study to the structure of our banking system. Though the President did not use these paragraphs, the letter in which they were enclosed at least had a negative effect that was beneficial. It kept the President from associating himself with a Treasury bill that in no way dealt with the basic weakness in our banking system and that, in fact, was just another confusing patch on that system.

At the same time I was brought to face the question how Congress itself could be stirred to take the action that was needed. The *Annual Report* of the Board of Governors for 1938 was published and placed in the hands of all Congressmen. But no action followed. In May 1939 Congress did approve the reorganization bill affecting the executive branch of government. Among other things, the bill enabled the President to undertake a limited reorganization of the Comptroller's office. Yet this was only a piecemeal step and in no way represented the thoroughgoing job of bank reform that needed to be done.

Moreover, the further steps then contemplated by Congress were all steps in the wrong direction. Specifically, at that time Congress showed great interest in the so-called Brown bill, which proposed to transfer all examination functions, both of the Comptroller's Office and of the Federal Reserve Board, to the Federal Deposit Insurance Corporation. This attempt to dump all bank examinations into the lap of an agency primarily interested in protecting its insurance fund completely ignored the relationship between examination and investment policies and the objectives of credit policy and money supply. For the insuring agency was in no way set up for the purpose, nor was

it equipped to determine and carry out monetary and credit policy. There were clear indications, moreover, that the sponsors of the Brown bill wanted to hold hearings on it, not for the purpose of bringing about further improvements in the banking machinery, but to air animosities against the Administration.

Still, the very presence of this political threat had at least the beneficial effect of bestirring the President, since it ran concurrently with an extraordinary and continuous outpouring across the country and in Congress of plots and schemes for currency issues, for higher gold and silver prices, for penalizing idle funds, for reshuffling the Reserve System, for one-hundred-percent reserves, and for new systems of banks to supply capital, especially to small businesses. And no one anywhere undertook to state just exactly what was wrong in all these save-the-country schemes.

In a conference with President Roosevelt on May 15, 1939 I suggested that the best way to head off the Brown bill and its motley array of camp followers would be through the adoption of a resolution that Senator Wagner had earlier introduced, and which was then pending before the Senate Banking and Currency Committee. (Senator Wagner had succeeded Senator Fletcher as chairman of that committee.) The resolution would have authorized the full committee to conduct a broad study designed to determine "a national monetary and banking policy by which the monetary and banking authorities of the Federal Government shall be guided and governed, and to determine the character of governmental machinery best calculated to carry out such policy." The terms of this resolution were sufficiently broad to permit the committee to deal comprehensively with the whole range of closely related monetary, credit, and banking problems.

I pointed out to the President that the broad, fundamental objectives of monetary policy should *first* be decided by Congress. Where existing authorities should be located, and what

powers should be added to or taken away from them in order to carry out the stated objectives of monetary policy should be decided only when the first requirement was met. To shuffle the existing agencies first and then to state monetary policy thereafter would be to put the cart before the horse.

I informed the President that I had discussed the whole matter with Senator Wagner, who clearly indicated his intention to press for the adoption of his resolution. I was satisfied, I said to the President, that under Wagner's guidance nobody would be able to use the committee for partisan purposes or to work off personal grudges. Senator Wagner proposed to have the whole committee, which was under his direction as chairman, conduct hearings and to see to it that no packed or partisan subcommittee, such as was threatened by the Brown bill, would take the lead. He was interested in a broad, constructive study and not in an inquisition.

"Furthermore," I added, "I am convinced that this course is eminently desirable from the Administration's standpoint; that it would remove any possibility of political charges being made in the 1940 campaign that the Administration had been negligent in dealing with banking, credit, and monetary problems that must be met; that it would serve to complete the Administration's achievement in reopening and rehabilitating the banking system following the banking holiday, which is still officially in effect."

Following this discussion, the President called in one of his secretaries. As if to quiet my doubts as to what he would do, after more than two and a half years of indecision on this point, he dictated in my presence a memorandum to Senator Wagner. It ran to the effect that he was very much in favor of Wagner's proceeding with the resolution and pledged his support to it.

It was with a buoyant mood that I left the White House that day.

The Wagner resolution, as passed by the Senate, empowered the committee to undertake its work for an indefinite period

during the sessions and recesses of Congress. But for this timeless undertaking, the sum of $25,000 was allocated to it, only one fourth of the amount that was requested. Actual work began in January 1940, four months after the outbreak of the war in Europe. A great deal of paper operations followed. Questionnaires were sent out to the American Bankers Association, the presidents of the Reserve banks, and the government banking agencies in Washington. At intermittent times it seemed that the replies reaching the committee were to take on a meaningful form. Yet, for all practical purposes, the attack in the Lowlands in May of 1940 also killed off all interest in bank reform. The committee members turned their attention to more pressing matters. And so things remained in limbo until 1944. With the exception of the changes in examination procedures, nothing had materialized in the way of banking unification except a substantial amount of sound and fury.