5. A House Divided

In the defense and war period of 1940–5 the need for co-ordination of our bank policies may be grasped from what I have said in other connections.

The domestic side of our national defense required a stable economy and a brake on any unnecessary disturbances in the price level of an inflationary or deflationary character. The primary responsibility for the orderly expansion and contraction of credit which alone could ensure domestic stability, lay with the Federal Reserve System. In turn, the Federal Reserve System exerted its controls through the nation's banking mechanism, which had the aspect of a giant competition in laxity.

In 1940, as in previous years, numerous piecemeal banking measures were dropped into congressional hoppers. The enactment of any one of them would have complicated the problem of thoroughgoing bank reform. In a negative sense, therefore, the Wagner committee, to which I have alluded earlier, served a useful purpose. We could always say that the committee was examining the whole question of monetary policy and was formulating the mechanism by which its objectives could be reached. Thus it would be inadvisable to pass an isolated bit of banking legislation until the "big picture" was developed by the committee. But the "big picture" remained in the congressional dark room for three more years.

By the fall of 1943 my work in Washington had largely settled down to a routine administrative job. The pattern of war finance had been firmly established by the Treasury; the Federal Reserve merely executed Treasury decisions. Being personally free from work pressures, I began to think about future problems we should face when the war was over. One of them was the perennial problem of bank unification, which I felt would become more pressing in the postwar economy as a result of the vast growth in the size of the public debt, and the portion of that debt which banks held.

My concern with this problem found expression at this time in an address I made to the National Association of State Bank Supervisors, who met in Cincinnati in September 1943. The program of the meeting had been built around the theme: "In Wartime and Postwar Eras, How Far and by What Means Is It Desirable or Possible to Preserve the Dual Banking System?" In a sense, if the answer given was that the dual banking system should not be preserved, the people who attended the meeting would all be out of jobs. While I had not advocated such a course of action, I had some amusement in quoting well-known conservatives who called the dual banking system one of the great evils of the land.

The aftermath of these quotations was an unfortunate one. Somehow the fact was broadcast that I, and not the conservatives, had called for an end to the dual system. Evidently those who gave currency to the charge had more pressing matters to attend to and thus could not spare the time to read the full record of the meeting. What I said then in support of bank unification merely repeated the points I had advanced in the previous nine years in discussions with President Roosevelt and in reports and testimony before congressional committees. There is, therefore, no need to repeat the argument yet another time.

Having revived the theme of bank reform, it was difficult to lay it aside. Roosevelt, in the meantime, rightly gave the major share of his attention to the prosecution of the war in Italy and the Pacific and to preparations for a second European front. With those events of surpassing importance pressing in on his thoughts, any conversation with him about bank unification would seem completely irrelevant to the issues of the hour. Still, the effective management of the nation's monetary and credit policies was the responsibility of the Reserve System in rain or sunshine, in war or in peace.

Shortly after Roosevelt returned from the Teheran Conference, I had a chance to discuss Federal Reserve matters with him. I told him that the Board of Governors had come to have few or no responsibilities beyond the discharge of mechanical duties, and that under these circumstances there seemed little point in my remaining on the Board once my term expired, in February 1944. There was, however, the project of bank unification, which could hold me in Washington. Would he be willing to support it?

This was the second time in our relationship that the question of my continued government service was related to the President's support of the bank-unification program. And for a second time, also, the President indicated that he was sympathetic with the views I had expressed. He agreed, furthermore, that the Board of Governors was in a position to carry out greater responsibilities than it had hitherto shouldered. It was arranged that I was to see him for a further conference before he did anything regarding my reappointment to the Board of Governors.

I was therefore somewhat surprised when I received a note from him, on January 7, 1944, which read:

> The time has come, the walrus said, to speak of many things—among others, that your renomination goes to the Senate for confirmation for another term, whether you like it or not! Enuf said!

My reply to the President, on January 12, read:

> Your thoughtful personal note to me of January 7 in regard to reappointment leaves me somewhat in the predicament of the snark-hunting banker, endeavoring to say what my tongue can no longer express. If I may paraphrase the oysters, however, may I say, "But wait a bit, until we have a chat?"
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> Gratified and honored as I am by your felicitous note, the question inevitably arises in my own mind as to whether I may not have

served out my usefulness under the present set-up of the Federal Reserve in its relationship to the economic, monetary and credit responsibilities of the Government. I am reluctant to ask for any of your over-crowded time, but I would greatly appreciate having an opportunity to talk with you on this matter.

In a conference following this exchange of letters I once again told the President of my reluctance to accept a new appointment to the Board of Governors. The reason was the one already stated—namely, that under the existing division of responsibility for monetary and credit policies I had reached a dead end in what could be accomplished by the Reserve System. Once again I reviewed the way this division of responsibility for bank supervision between three government agencies led to checkmates in the formation and execution of monetary and credit policies, and added that I would happily retire from the government scene if my presence as head of the Board of Governors was the main stumbling-block to unification in at least this area. I had been advised that the President had authority under the First War Powers Act to issue an executive order that would bring about the desired results. In fact, the banking field was the only one in which he had not used that executive power. Finally, I recalled that my continuation in public service was associated with bank unification.

The meeting brought a promise from the President that he would support the proposed undertaking. It was arranged further that I should work with Harold D. Smith of the Bureau of the Budget in drafting alternative executive orders that would effect what was wanted. Accordingly I accepted a reappointment to the Board of Governors and, following Senate confirmation, was designated by the President to serve as Chairman. The Board membership was for a fourteen-year term, this being the only vacancy available at the time. The chairmanship was for the four-year statutory term expiring in February 1948.

When the draft executive orders were ready, I turned them over to Senator Byrnes, in his capacity as War Mobilizer, and to

Judge Samuel I. Rosenman, who had been asked by the President to work on the needed reorganization of various war agencies. The orders were also accompanied by a press statement to be issued by the President at the time the new arrangement was announced. It emphasized the fact that Congress had placed on the Board of Governors primary responsibility for national monetary and credit policy and that these policies could not be successfully carried out when subordinate, though important, related functions of examination and supervision were lodged in two other agencies.

Unfortunately, President Roosevelt did not grasp the essential purpose of the unification plan that had been proposed. He tended to view it merely as a plan to save money and manpower and overlooked the point I had emphasized for years: namely, that this was a plan to give to the Federal Reserve System the power to execute the responsibilities over money and credit lodged in it by Congress. Accordingly, the plans submitted came to nothing. The march toward futility is told in an exchange of letters I had with the President. On February 9, 1944 he wrote to me to say:

> Jimmy Byrnes has shown me your letter and the proposed statement and I am a bit worried because there is really nothing to show the overlapping of examinations of banks. You certainly gave me the impression the other day that most of the banks get examined by the Federal Reserve, by the FDIC and by the Comptroller of the Currency and I was, of course, worried because I did think that this multiplicity of examinations had been eliminated in greater part many years ago.
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> It raises a question in my mind as to whether anything should be done at this time unless it would result in a great saving of manpower and also duplication or triplication of examinations. As it stands I cannot discover any great saving except possibly a little in overhead in Government agencies.

In my reply to the President, on February 17, 1944, I expressed surprise and regret that he misunderstood the real purpose behind the proposed unification scheme. I noted that all the Administration's reasons that justified the reorganization of other government agencies were also present in the case of the agencies that dealt with banking matters. Moreover, there was the compelling need for action at that time so that unified influence could be brought to bear in the fight against either inflation or deflation in the postwar years. I felt the need to add:

> As you will recall, I strongly urged the need for consolidation of the Federal banking agencies, regardless of whether it was under the Federal Reserve or some other setup, and said that I would gladly step out of the picture if it would help to bring about this result. My term was expiring, it was an appropriate time to withdraw, and it seemed best for me to do so in view of the way I felt. You generously said, however, that you wished me to stay, that you agreed there was need for improvement, and that you would do something about the situation.

A conversation I had with Byrnes at this time recast the whole problem of unification in political terms. Byrnes pointed out that this was a "controversial subject" that would cause formidable opposition from the bankers, the Comptroller, and the Treasury. Inasmuch as we were in a war—and in an election year—"nothing should be done to rock the boat." Byrnes did not flatly reject the idea of unification, but suggested that an attempt be made to draft the executive orders in a form less likely to arouse bitter opposition.

This was done, the plan I suggested to Roosevelt in 1939 serving as a model for the new draft. But when the redraft of the executive orders was sent back to the White House, it became evident that no plan whatsoever would be acceptable at that time. Roosevelt presently raised the question whether he actually had the authority under the War Powers Act to issue an executive order of the sort then before him. This is the character of the letter he sent me on February 28, 1944:

> I have been a good deal worried by the language of the War Powers Act. My power would let me make a merger "only if neces-

sary for the prosecution of the war." The trouble is that while that excuse might get by, it is just a bit open to doubt.

Also, considering "circumstances" at the present time, I have grave doubts as to whether action on my part at this time is advisable.

My reply to the President was by indirection. It was contained in a letter I sent to Byrnes on March 6, 1944. As I explained to Byrnes, I was not bothering the President with a direct reply, "because whatever he may do in the matter depends upon your advice to him." The main body of my letter was devoted to an opinion rendered by the Board's counsel, which showed that the President could bring about banking unification by means of an executive order issued under the general authority of the War Powers Act.

A final, direct exchange of letters with President Roosevelt brought this whole effort to a dead end. On June 29, 1944 I wrote to him to say that a streamlining of the federal banking agencies seemed politically feasible after all. In support of this I enclosed an extract from a report issued to the Senate on June 12 by Senator Walter F. George on behalf of the Special Committee on Postwar Economic Policy and Planning. The report called for a careful study of "all Government bureaus and departments with a view to the elimination of those which do not perform a real and vital function and of the overlapping functions of others." It urged that steps be taken to co-ordinate and unify the activities of all the departments to be certain that they did not pull in different directions.

The language of this report seemed to fit the three-headed banking setup; but to this the President replied on July 7, 1944:

Although I appreciate the force of the point made in the recent report of Senator George's Postwar Committee with respect to the desirability of eliminating overlapping functions of Government, I do not think this is a good time to be thinking of "streamlining" the Federal banking agencies.

Let's put it on the shelf for the rest of this year, at least.

There the problem rested until the Hoover Commission dusted it off in 1948, without significant results. In 1949 a subcommittee of the Joint Committee on the Economic Report met under the chairmanship of Senator Paul H. Douglas and conducted a searching inquiry into the whole range of fiscal, monetary, and credit policies. Among other things, the subcommittee also considered the question of bank unification. The following extract from my testimony before that body may be read as a valedictory—or an elegy—to fourteen years of futile effort in this particular area. I quote:

> Throughout the long history of banking reform in this country—and it is still very far from complete—the same bankers or their prototypes have been for the status quo. Beginning with the National Banking Act, they have fought every progressive step, including the Federal Reserve Act and the creation of the Federal Deposit Insurance Corporation. If you abide by their counsels or wait for their leadership, you will never do anything in time to safeguard and protect private banking and meet the changing needs of the economy in such a way as to avoid still further intrusion of the Government into the field of private credit, to which I am really very much opposed—an intrusion which the public has demanded in the past because private banking leadership has failed.

I mean by this that the bankers delude themselves when they think they can successfully pursue a policy of divide and rule. They can divide government banking agencies. They can keep them weak. But the net effect of this tactic is to allow the Treasury Department to rule the whole field of monetary and credit policies.