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FEDERAL RESERVE INDEPENDENCE AND CONGRESSIONAL INTENT: A REAPPRAISAL OF MARRINER ECCLES' ROLE IN THE REFORMULATION OF THE FED IN 1935

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ABSTRACT

Congressional intent concerning the independence of the Federal Reserve matters because it protects the public from the politicization of monetary policy. Attempts to subordinate monetary policy to the President could easily end up in front of the Supreme Court. The outcome of such a case would depend importantly on the historical record. Understanding what Congress intended when it designed the decision-making structure of the Fed requires a clear understanding Marriner Eccles' proposal for the structure of monetary policymaking in Title II of the Banking Act of 1935 and the Congressional response. Eccles' proposal vested monetary policymaking in a body beholden to the President. Eccles argued that leaders of the Fed should serve at the discretion of the President and implement the President's monetary program. The Senate and House rejected Eccles' proposal and explicitly designed the Fed's leadership structure to limit politicians'—particularly the President's—influence on monetary policymaking.

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Federal Reserve Independence and Congressional Intent: A Reappraisal of Marriner Eccles' Role in the Reformulation of the Fed in 1935

By Gary Richardson and David Wilcox

Donald Trump has won reelection. The President-elect and his advisers have asserted that they will reshape monetary policymaking and erode the independence of the Federal Reserve. To that end, Trump has stated that he will not reappoint Jerome Powell when his four-year term as chair of the Federal Reserve Board expires in May 2026. At that point, Powell could – if he wants – remain on the Board as an ordinary member until his separate 14-year term as a Fed governor runs out in January 2028.

A precedent for such a situation comes from 1948, when President Harry S. Truman did not reappoint Marriner Eccles as Fed chair.[1] Casual students of Fed history may think of Eccles as a champion for the independence of the Federal Reserve from the President, the executive branch, and politics in general, and the architect of the modern Federal Open Market Committee (FOMC). They may also assume he was not reappointed due to policy disagreements with President Truman and stayed on the Board despite his demotion out of spite and that he demonstrated his personal commitment to policy independence in the Fed-Treasury Accord of 1951 by leaking to the *New York Times* transcripts demonstrating the disingenuousness of the Truman Administration's claims about its discussions with the FOMC. All of that is inaccurate except for the last point. Eccles did leak the transcript, for reasons that remain obscure.

The purpose of this paper is to set the record straight. We will show that, as the modern institutional structure of the central bank was being designed, Eccles proposed to subordinate the Fed to the President. He told Congress in 1935 that he would resign if a new President took office during his tenure as head of the Federal Reserve Board. Ten years later, when President Roosevelt died and Vice President Truman took office, Eccles acted on this belief by offering to resign and asserting that he continued to believe the leadership of the Fed should serve at the pleasure of the President, but Truman declined the offer. When Eccles's third term as Chair expired, Truman told him that he would appoint a new Chair. Eccles offered to resign from his position as member of the Board, but Truman asked Eccles to remain on the Board as Vice Chair. Eccles declined to serve as Vice Chair but remained on the Board for three years.

This history provides crucial evidence on a current issue: Congressional intent concerning the independence of the Federal Reserve. Should the Trump administration (or any administration) attempt to erode the independence of the institution and subordinate monetary

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[1] Eccles is the best-known leader of Fed Board to remain on the Board after their leadership term expired, but others have done so. In 1978, Arthur Burns's successor as Chair of the Fed, William Miller, was sworn in on March 8. Burns remained on the Board until March 31. Burns term on the Fed Board would have lasted until 1984. Newspapers, including the Washington Post and New York Times, speculated about how long Burns would remain on the Board and whether he would use his position as a bully-pulpit to criticize Carter-administration economic policies. Charles Hamlin, who was appointed as the first governor of the Federal Reserve Board in 1914, stepped down from his position in August 1916 but remained as a member of the Board until February 1936 and continued to serve the Board as a special counsel until his death in April 1938. For details, see Farnsworth 1978, Pine 1977, and Federal Reserve History dot org, *Charles S. Hamlim*, https://www.federalreservehistory.org/ people/charles-s-hamlin.

policy to the President, the controversy could easily end up in front of the Supreme Court. The outcome of the case will depend importantly on the historical record. Understanding what Congress intended when it designed the decision-making structure of the Fed requires a clear understanding Eccles' proposal for the structure of monetary policymaking in Title II of the Banking Act of 1935 and the Congressional response.

<u>Eccles's conception of how the Fed should be structured</u>

The true history of Eccles's role is brought to life in the transcripts of the hearings held by the House and Senate concerning the Banking Act of 1935. Eccles led the team that drafted Title II of that bill – the portion of the bill that redesigned the leadership structure of the Fed.[2] He presented the draft to Congress, argued for its provisions, claimed authorship, and by both word and deed, proved that he believed what he said. Contemporary observers took him at his word and attributed Title II of the bill to him. Congressmen and commentators referred to Title II as "the Eccles Bill."

Eccles proposed to reconfigure monetary policymaking by the Federal Reserve System in two fundamental ways. First, he believed that control of monetary policy should be centralized in Washington, D.C. The Fed's leaders would be given tools enabling them to adjust the nationwide supply of money and credit and thus to influence nationwide interest and inflation rates. They would also be given the authority to act as they thought best. Previously, decision-making on these issues had rested with the heads of the regional Fed banks, whose powers were limited and constrained by rules, like the gold standard, that limited their discretion over aggregate money and credit. Second, to subordinate monetary policymaking to the President, the leadership of the Federal Reserve – specifically the members of the Federal Reserve Board – would serve at the pleasure of the President, who could replace them at any time and for any reason. The heads of the twelve Federal Reserve banks would serve one-year terms. They would be appointed by their bank's board of directors, but their initial appointment and all reappointments would have to be approved by the Federal Reserve Board. The President could, therefore, swiftly replace the Fed's leadership (in the case of the Board) or influence its selection (in the case of the heads of the Reserve Banks).

These provisions were necessary, Eccles argued, to ensure that monetary could be formulated and implemented by the Executive Branch. Eccles asserted that

> an administration is charged, when it goes into power, with the economic and social problems of the Nation. Politics are nothing more or less than dealing with economic and social problems. It seems to me that it would be extremely difficult for any administration to be able to succeed and intelligently deal with them entirely apart from the money system. There must be a liaison between the

[2] Title I focused on updating and making permanent the Federal Deposit Insurance Corporation (FDIC), which had been established in 1933. The Roosevelt Administration tasked Leo Crowley, Chairman of the Board of the FDIC, with drafting Title I and presenting it to Congress. Title III focused on technical amendments to bank regulations. The Roosevelt Administration tasked J. F. T. O'Conner, the Comptroller of Currency, with drafting this legislation and presenting it to Congress.

> administration and the money system – a responsive relationship (House 1935 p. 191).

To ensure the monetary system responded to the administration's will, the President had to be able to remove the leaders of the Federal Reserve in short order if he disagreed with their decisions. President Roosevelt had controlled monetary policy since 1933 when the passage of a series of laws gave the President this authority on an emergency basis. Now was the time to make those changes permanent (House 1935 pp. 72, 181-183).[3]

There were two versions of the Eccles bill. The original version was introduced to Congress as House of Representatives bill 5357 (H.R. 5357) and Senate bill 1715 (S. 1715). The original bill was written by a team consisting of Eccles – then serving as the Governor of the Federal Reserve Board – and four Fed staffers: Emanuel Goldenweiser, the director of the Division of Research and Statistics at the Board; Lauchlin Currie, the assistant director of the same division; Mr. Wyatt, the general counsel of the Board; and Mr. Morrill, the secretary of the Board (House 1935 pp. 351-2). Currie's influence was especially noted. The philosophy underlying the reforms reflected ideas he had recently published in his 1934 book, *The Supply and Control of Money in the United States* (Senate 1935 p. 438-9).

While this small group received feedback from a few members of the Roosevelt Administration, Eccles did not solicit feedback from members of the Federal Reserve Board, Federal Open Market Committee, or Federal Advisory Council; Senators or Congressmen or their staffs; regulatory or policymaking professionals in the federal or state governments; academics; businessmen; or bankers (House 1935 p. 351-3, Senate 1935 pp. 550, 564). Except for Eccles himself, members of the Fed Board did not see the bill until it was "presented [to Congress] and printed" (Senate 1935 pp. 554).

Eccles's original bill proposed placing monetary policymaking under administration control by restructuring the FOMC.[4] The FOMC would consist of the head of the Federal Reserve Board (then called the governor) who would serve as chair of the committee, two other members of the Fed Board (theoretically possibly including the Secretary of Treasury and Comptroller of Currency, both of whom at that time sat *ex officio* on the Fed Board), and the

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[3] During his testimony, Charles Warburg, Vice Chair of the Manhattan Company and son of Paul Warburg, a famous investment banker and financial intellectual who played a pivotal rule in creating the Federal Reserve System and served as a founding member of the Federal Reserve Board, deconstructed Eccles' arguments for Title II (Senate 1935 pp. 71-93). Warburg identified the ideas underlying Title II as a blend of the theories of John Maynard Keynes and Lauchlin Currie (Senate 1935 pp. 74-5). The testimony of Warburg and other witnesses along with comments by various senators indicate that they believed Title II was a plan to codify and cement the President's control over monetary policy that had been based on a series of laws passed in 1933 and 1934 that allowed the President to directly use the tools of monetary policy on a temporary, emergency basis during the ongoing Depression but which would soon expire.

[4] The Banking Act of 1933 had created the FOMC, which then consisted of the 12 CEOs of the Federal Reserve Banks, then called governors. The original FOMC set open-market policies for the entire Fed System, although the Federal Reserve Board could veto their decisions and individual Federal Reserve Banks could decline to participate in FOMC-dictated policies, although the dissenting banks could not initiate countervailing policies on their own accord. The Banking Act of 1935 gave the FOMC something close to its current form. The FOMC's structure was further amended in 1942, which introduced the current voting structure.
https://www.minneapolisfed.org/article/1999/the-federal-reserves-beige-book-a-better-mirror-than-crystal-ball

heads (then called governors) of two Federal Reserve banks (Senate 1935 pp.196, 313, 395, 535). This committee would have the authority to devise and execute open-market operations for the entire Fed System. Eccles's bill gave the Board the power to determine reserve requirements (i.e. the fraction of a member banks' deposits that must be redeposited as reserves at a Federal Reserve bank) and the discount rate. These proposals would concentrate decision making on monetary issues which -- until that time -- had been split between the Board and the heads of the Federal Reserve Banks, except for reserve requirements, which were determined by Congress and set in statute.

The House and Senate have their say

The House of Representatives held hearings on the initial Eccles bill on 25 days between February 21 to April 8. On ten days, Eccles was the sole witness called. On the eleventh, Eccles shared the floor with the Fed's director of research and statistics, Goldenweiser, who had helped draft Title II. When Eccles testified, he introduced a series of amendments that he wrote himself, which altered many facets of the proposal that he had submitted a few weeks before. The amendments further concentrated monetary policymaking. The Fed Board received authority over all three levers of monetary policy: open-market operations, discount lending, and reserve requirements. The chair, governor, and all members of the Fed Board would serve at the Presidents' discretion . The FOMC would be replaced by an advisory committee consisting of representatives of 5 of the 12 Federal Reserve banks, which could recommend policies to the Board, but which would not vote upon or have authority over monetary policymaking (Senate 1935 p. 699, House 1935 p. 181-3).

Most members of the House seemed supportive of Eccles' ideas. During the hearings, representatives asked for additional information on many points and voiced occasional concerns but called witnesses that criticized Eccles' proposal on only one issue: the lack of direction about how to use the powers of monetary policy that the Eccles plan would concentrate in the hands of the Federal Reserve Board. Both Irving Fisher, the famous economist, and Robert Owen, a politician who was one of the sponsors of the Federal Reserve Act in 1913, spoke in favor of clear guidance and a price-level mandate. Fisher argued that the:

> bill does not specifically state what is right and what is wrong. In all probability it cannot be rightly administered. There is too much discretion in it and too little guidance, too little in the nature of a criterion (Senate 1935 p. 519).

Fisher thought the Congress should decide on a price index and level of prices, and order the Federal Reserve to use open-market operations and the other tools of monetary policy to stabilize prices around that target. The bill, as then drafted, gave "tremendous and dangerous power to [the Federal Reserve], and some day it will be abused…. it would be manipulated for some ulterior purpose (House 1935 p. 520)." Fisher advocated adding directives to the bill like:

> It is hereby declared to be the policy of the United States that the average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets for the period covering the years 1921 and 1929 inclusive shall be restored and maintained by the control of the volume of credit and currency. The Federal Reserve Board, the Federal Reserve Banks and the

> Secretary of the Treasury are hereby charged with the duty of making effective this policy.[5]

That directive was in the Goldsborough Bill, which the House passed by an overwhelming majority in 1932, although the legislation died in the Senate, and resembled a directive in an earlier bill introduced by Congressmen Strong (House 1935 p. 520).

Owen echoed Fisher's criticism, advanced a similar plan, and recommended that the Fed regularly report to Congress on implementation of its mandate. Owen argued

> the suggestion which has been made here is a good and wise one, to base the index upon basic commodities, and I think that that ought to be further discussed by the Board, and the Board will make reports to the Members of Congress at least once a year, and I think preferably every quarter, so that the Board would tell the Members of Congress what they are doing to carry out the policy of the Congress with regard to money, so frequently that they would never lose sight of their job; and their sole job, in my opinion, is regulating the volume and value of money. Your chief duty is to declare the policy—not necessarily the details (House 1935 p. 562).

Congress institutionalized regular reporting like this with the Federal Reserve Reform Act of 1977. Owen, like Fisher, had supported the Goldsborough Bill three years before and thought its message should be a centerpiece of the current proposal (House 1935 p. 568). It is possible that Fisher and Owen's testimony – and the invitation of other witnesses that spoke to the House on this topic – could be attributed to T. Alan Goldsborough, Representative from Maryland, sponsor of the Goldsborough Bill, and member of the House Committee on Banking and Currency which held these hearings.

While hearings in the House provided Eccles with a friendly forum for expounding his proposals, it soon became clear that many representatives opposed his plan. Seven of the twenty-five members on the House Committee on Banking and Currency issued a minority report whose lead author was Representative John Hollister.

The minority criticized Eccles' proposal and the auspices under which it was purported to be presented. Eccles' final proposal centralized monetary policy at the Federal Reserve Board, and by making members of the Fed Board removable by the President at will, took away whatever independence they had. Without independent leaders, central bank policy would be under control of the President. Central banks in prosperous democracies, like England, operated independent of the government. Central banks in dictatorships, like the Soviet Union, were controlled by their governments. The minority argued that such a momentous change in the structure of the central bank should only be made after careful study.

> While the committee was assured that the first draft was the joint work of all the various financial departments of the Government, and had their joint approval, we have had no assurance that title II in its amended form has received any approval except that of Governor Eccles, or has even been submitted to anyone else. It is a

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[5] *TIME*. "National Affairs: Goldsborough Bill." May 16, 1932. https://time.com/archive/6890855/national-affairs-goldsborough-bill/

clear example of hasty and ill-advised legislation on a matter of vital importance to the country (House 1935b p. 34).

The minority argued that Eccles' bill, as written, should not pass, and that monetary policymaking's structure should be changed only after careful study by experts inside and outside of the federal government.

Despite these criticisms, a majority of the House of Representatives supported Eccles' inclination to consolidate control of monetary policy in the hands of people directly beholden to the President, and the House passed Eccles' plan, mostly in the form he recommended. The issue then passed to the Senate.

The Senate held hearings from April 19 to June 3 on Eccles' original bill and the amended version that passed the House. Rather than referring to the legislation that had been passed over from the House as "the administration bill," Carter Glass noted "it is Governor Eccles' bill" (Senate 1935 p. 357).

A Senate Subcommittee chaired by Glass – one of the principal sponsors of the original Federal Reserve Act and a contributor to most monetary, banking, and financial legislation that passed Congress between 1913 and 1935 – called a lineup of luminaries to scrutinize Eccles' plan. Witnesses took differing views about the benefits of centralizing decision-making at the FOMC. While most came down in favor of centralization, almost all criticized the politicization of policymaking in a body beholden to the President of the United States. Critics included many members of the Federal Reserve Board and Federal Advisory Council, directors of many Federal Reserve Banks, the head of the American Bankers Association, and even the Secretary of Treasury, Henry Morgenthau, who was at that time also Chair of the Federal Reserve Board and a personal confidant of President Franklin Roosevelt.[6]

Morgenthau argued that he would like to have monetary authority "concentrated in an independent Government agency (Senate 1935 p. 505)." The agency should operate independent of "all outside influence – just as independent as you can make it …. [like] the Supreme Court … independent of the President. … No member of the board could be removed except by impeachment" (Senate 1935 p. 506). Morgenthau recommended forming this agency by nationalizing the Federal Reserve banks.

Frank Vanderlip, former Assistant Secretary of Treasury, former President of National City Bank of New York (today's Citibank), and a contributor to the original Federal Reserve Act in 1913, similarly supported centralization of monetary authority, although he doubted the

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[6] At that time, the Chair of the Federal Reserve Board (who was also the Secretary of Treasury) was a distinct position from the Governor of the Board. Four of the seven chairs that served between 1913 and 1935 played leading roles directing the Fed's banking and monetary policies. These influential chairs included William McAdoo, Carter Glass, William Woodin, and Henry Morgenthau. Glass asserted that as Chair he had too much influence on the Fed (Senate 1935 p. 90). Morgenthau indicated that during his tenure, when the Treasury and President directly controlled the levers of monetary policy, the FOMC "played a very unimportant role" (Senate 1935 pp. 503-5). In contrast, Andrew Mellon, who served as Secretary of Treasury from 1921 through 1932, played much less of a role in the Fed, possibly due to his strong laissez-faire economic beliefs. During Mellon's tenure, the governor of the Federal Reserve Bank of New York, Benjamin Strong, took a leading role directing open-market policies.

constitutionality of Eccles's proposal and stated that it "should be fundamentally rewritten" (Senate 1935 p. 916). Vanderlip argued that Congress should ensure the Fed's leadership "should not be removable by the President, and should not be subject to political pressure, and certainly not subject to business pressure" (Senate 1935 p. 917). The Secretary of Treasury and Comptroller of the Currency should be removed from the monetary authority's board of directors, which should consist of men of integrity and experience.[7]

Adolph Miller, a member of the Federal Reserve Board since its founding in 1914, also supported the shift toward centralization of monetary authority (Senate 1935 pp. 750-1). The Fed's original structure divided authority and responsibility among the Federal Reserve Banks, making it difficult to discern who was the "responsible agent," and leaving policymaking susceptible to being influenced by special interests (Senate 1935 p. 687). Miller criticized subordination of monetary policy to the President. Miller feared "political control" as well as "banker control" (Senate 1935 p. 687). He believed the Federal Reserve Board needed to be "independent" with members who regard service "as a great public responsibility which runs to the public rather than to an official of the administration of the day" (Senate 1935 p. 729-30). Miller suggested many of the institutional features adopted in 1935 that underly the Fed's independence today. These include removing the Secretary of Treasury and Comptroller of the Currency from the Federal Reserve Board, changing that organization's name to The Board of Governors of the Federal Reserve System (Senate 1935 p. 754), setting membership of the Board at seven (Senate 1935 p. 758), and writing into law the provision that members of the Board of Governors could be dismissed only "for cause."

During the hearing, the Senate called 60 witnesses. Almost all criticized Eccles' proposal to place the President in control of monetary policy and advocated political independence for the central bank. Witnesses suggested ways to prevent politicians from influencing monetary policy. Senators picked up ideas they liked and asked later witnesses what they thought of them. An example was Miller's idea for changing the Federal Reserve Board's name to the Board of Governors of the Federal Reserve System. "Governor" was the traditional term for the chief executive officer of a national or central bank. The Bank of England had a governor. So did the other central banks in Europe. From 1914 to 1935, The Federal Reserve System had 13 governors: the head of each of the 12 Fed banks and the head of the Fed Board in Washington. Miller thought that to highlight the shift in authority to the Board from the Reserve Banks, all members of the Board should have the title "governor" and the name of the board itself should include the word "governors." McAdoo then suggested relabeling the heads of the regional banks – who had been called governors – as something else. Later discussions led to the idea of giving them the title of president, which was the traditional title for the head of a commercial bank.

A particular focus: President's power to dismiss Fed Board members

Senators and witnesses discussed in detail how to prevent the President from dismissing members of the Board for mere policy disputes. Winthrop Aldrich, chair of Chase National Bank and son of Nelson Aldrich who had spearheaded the initial drive a quarter-century earlier to create what became the Fed, suggested limiting dismissal to cases where a Board member had

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[7] Unfortunately, both Glass and Vanderlip used gendered language during this exchange. Nancy Teeters, the first woman to serve on the Federal Reserve Board, would not be appointed for another 43 years.

"become permanently incapacitated or has been inefficient, or guilty of neglect of duty, or of malfeasance in office, or of any felony or conduct involving moral turpitude, and for no other cause and no other manner except by impeachment (Senate 1935 pp. 396-7)." Vanderlip argued that members of the Fed board "should not be removable by the President" (Senate 1935 p. 917). Morgenthau argued that no member of the Fed board should be removed except by Congress via impeachment, just like members of the Supreme Court (Senate 1935 p. 506). William McAdoo, a Senator from California who had been Secretary of Treasury when the Fed was founded 22 years before, concurred on this point, although his analogy was to Congressional removal of federal judges (Senate 1935 p. 755). Miller favored the phrase "no member of the Board shall be removable from office during the term for which he was appointed … except for malfeasance" (Senate 1935 p. 754).

The extended discussion during the Senate hearing occurred, in part, due to uncertainty about the law. In 1926, the Supreme Court held in *Myers* v. *United States*, (272 U. S. 52) that the President had the sole power to dismiss executive branch officials and that restrictions on the President's power to dismiss were unconstitutional. On May 1, 1935, while the Senate debated the Eccles Bill, the Supreme Court heard arguments in *Humphrey's Executor v. United States*, which concerned the question of whether the President could remove leaders of independent federal agencies for reasons other than those allowed by Congress. The circumstance that differed between the two cases was that Humphrey was a member of the Federal Trade Commission (FTC) – an independent agency, not unlike the Fed – whereas *Myers* concerned the President's powers over employees within the executive branch itself. Senators and witnesses discussed these cases, whether they thought *Myers* or *Humphrey's Executor* applied, and whether the Supreme Court would find for Humphrey's executor.[8] Most thought (a) *Humphrey's Executor* applied to the Fed; (b) the Supreme Court would find for Humphrey's executor, meaning that Congress could limit the President's ability to dismiss personnel from agencies like the FTC or the Fed; and (c) the Senate should wait for the court to hand down its decision in the *Humprey's Executor* case before finalizing the language in the legislation. The Supreme Court announced its decision in the case on May 27, near the end of the Senate hearings, and witnesses soon noted its relevance for the independence of the Federal Reserve (Senate 1935 p. 998).

These discussions raised a related, surprising issue. From the founding of the Fed in 1913 until 1933, members of the Fed Board who were appointed and confirmed by the Senate served for fixed terms "unless sooner removed for cause by the President." The Banking Act of 1933, however, removed the phrase "for cause" from the law (Senate 1935 p. 396). Aldrich raised this issue during his testimony. Eccles had told Aldrich he was unaware the provision had been removed, and Aldrich said he believed other members of the Board were likewise unaware. Glass said "I must have been asleep when that was eliminated from the act. I have no recollection of it." Aldrich replied that the unnoticed change illustrated the dangers of "hasty legislation." Glass retorted, "I do not know that it was due to hasty action. It might have been due to covert action" (Senate 1935 p. 398). The transcripts demonstrate Glass was unaware of the change, because earlier in the hearings he told two witnesses that according to current law the President could remove a member of the Fed Board only "for cause" (Senate 1935 pp. 92, 206).

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[8] Sadly, Humphrey had died by the time of the Supreme Court argument. The issue at stake in the case was whether his executor should be allowed to recover the salary that would have been paid to him had he remained on the FTC between the time of his dismissal and his death.

Eccles digs in

Eccles defended his proposal in testimony before the Senate. He noted that "there has been a great deal of discussion about the fact that this makes the Board a more political board" (Senate 1935 p. 282).[9] He insisted, however, that this was not the case. The Board was and would always be political. Even if the President lacked legal authority to remove Board members,

> no man would stay on the Board if the President of the United States wished to appoint someone else in his place. … It seems to me to be immaterial whether a Governor has or has not a technical right to stay on the Board, if the President prefers to have someone else as Governor, because no person who is qualified for that position would choose to remain in these circumstances (Senate 1935 p. 282).

This hardly marks Eccles as the patron saint of Fed independence.

In earlier testimony before the House, Eccles discussed the question of whether the employment possibilities of the head of the Fed Board should be restricted (House 1935 pp. 190-2). This issue turned out to be related to the question of presidential control.

Eccles noted that, under then-current law, the Board's head had a specified term as the governor of the Board and a separate term as a member of the Board. Their term as a member typically ended years after their term as governor. This complicated a governor's return to private life, because a provision in the Federal Reserve Act prohibited former members of the Fed Board from working for financial institutions for two years unless they had completed a full term. The intent of this provision was to prevent a revolving door, where individuals rapidly moved from the Fed Board to the banking industry, which might reward them financially for policy decisions they had made while in office. Eccles proposed that if an individual resigned from their term as a Board member immediately after they ceased to be governor of the Board, the two-year ban be waived, so that they could immediately work in the financial services industry. Otherwise, Eccles said, governors without large private incomes could be compelled for financial reasons to remain on the Board, limiting the President's ability to place the levers of monetary policy in the hands of his own people. Congress ultimately rejected these proposals from Eccles, and the two-year ban remains in place to this day for all members of the Board of Governors.

Other key structural changes

The Senate added to the Banking Act of 1935 many provisions that shield leaders of the Federal Reserve from political pressure. Members of the Board of Governors serve 14-year terms, staggered so that one term expires on January 31 of every even-numbered year. A member may continue to serve after the expiration of their term until their successor has been confirmed by the Senate. The President nominates a Chair of the Board from among the members of the Board, and that person receives a 4-year term that starts on the date of their confirmation.

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[9] The discussion to which Eccles alluded may have been the testimony of witnesses that preceded him or articles and editorials published in newspapers around the nation in the weeks preceding his testimony.

Members of the Board of Governors can be removed only “for cause.” The heads of the Federal Reserve Banks, now labelled presidents, serve 5-year terms. The boards of directors of each Fed bank appoints them, subject to approval of the Board of Governors.[10] The FOMC makes the principal decisions concerning monetary policy. The committee elects its own chair and vice-chair.[11] Its twelve voting members consist of the Board chair, the six other members of the Board of Governors, the President of the New York Fed, and Presidents of four other Fed banks on a rotating basis. The other Fed bank presidents serve as non-voting participants (but technically are not “members” in years when they do not vote). The structure is set that way so that a single President of the United States cannot appoint a majority of the FOMC if the members of the Board of Governors serve their full terms.

House and Senate agree on independence

The House and the Senate passed versions of the Banking Act of 1935 that differed substantially, particularly in Title II. The House passed Eccles’ proposal with few changes. Their version of the legislation vested monetary policymaking in a Federal Reserve Board beholden to the President. The Senate removed almost all of Eccles’ ideas and replaced them with concepts drawn from previous proposals, witnesses’ suggestions, and the Senators’ own insights. The Senate vested monetary policymaking in a Federal Open Market Committee and Board of Governors designed to operate independent of the Executive Branch.

Whenever the House and Senate pass versions of legislation that differ, they typically convene a temporary, ad hoc committee to reconcile their differences and settle on a single version of the legislation that the two chambers will adopt and send to the President. The leadership of each chamber chooses their own members for this conference committee, typically from members of the bill’s committee of jurisdiction. The number chosen is not set, but determined by the leadership, and can differ across chambers. The conferees meet, discuss, and negotiate the text of the final legislation, but each chamber’s delegation votes separately. The Senate conferees vote whether to accept the text of the conference report, and the House conferees vote whether to accept the text of the conference report. Agreement is reached when both the Senate and House delegations to the conference committee vote to accept the final text. By selecting members of their delegation whose views they know, the leadership of each chamber can influence the report crafted by the conference committee.

Regarding the Eccles Bill, the House leaders’ intent becomes clear when one sees the three representatives they chose for their delegation (House 1935c). Henry Steagall, chair of the Committee on Banking and Currency, was a natural choice given his stewardship of the legislation and knowledge of the subject. T. Alan Goldsborough, a Democrat, and John Hollister, a Republican, were almost certainly selected for a purpose. Goldsborough and Hollister were two of the most prominent critics of Eccles’ proposal. Appointing them to the conference delegation and no one else ensured that they would control the fate of Eccles’ plan. They did not support the version of Title II that passed the House. They had made this clear during the hearings and with

[10] Since 2010, only a subset of the Reserve Bank directors – the six out of nine who are not officers, directors, or employees of a regulated entity – may participate in the appointment of a Reserve Bank president.

[11] By tradition, the FOMC elects the chair of the Federal Reserve Board as the chair of committee, and the president of the Federal Reserve Bank of New York as its vice chair, but this arrangement is not written in law.

the minority report. The House leaders certainly knew of their opposition which was public and strident. Their appointment ensured the Senate's version of Title II, where monetary policy was independent of the President, would become law. This outcome must have been the intent of the leaders of the House.

The end of the story

So, the commonplace view of Eccles as a tribune of Fed independence is wrong. But what of his decision to continue serving as an ordinary member of the Board of Governors from 1948 to 1951? Was this a case of Eccles "burrowing in" out of spite for Truman having failed to renominate him as chair?

Hardly so.

Eccles served as the last Governor of the Federal Reserve Board and first Chair of the Board of Governors, even though he disagreed with its structure. He served as chair for the rest of the Roosevelt Administration, remained a faithful executor of the President's monetary program, and believed that was the proper role for a person in his position. Roosevelt reappointed Eccles as Chair in 1940 and 1944.

When Roosevelt died in 1945, the Vice President, Harry Truman, became President. True to his word, Eccles offered to resign and told Truman that it was his "feeling that the Chairman, who is designated by the President, should serve at the pleasure of the President." Truman rejected Eccles's offer, told him that "there was no one I [Truman] desired to appoint in your place," and asked Eccles to complete his term as Chair (Truman 1948).

In 1948, when his third term as chair expired, Eccles wrote to Truman that "I have not altered my conviction that the Chairman of this Board should serve at the pleasure of the President, and I sought to have such a provision included in the Banking Act of 1935" (Eccles 1948). This time, Truman agreed. He told Eccles that he now desired to appoint to the Board of Governors a new member who would be designated as Chair.[12] This decision, Truman wrote,

> reflects no lack of complete confidence in you, or dissatisfaction in any respect with your public service, or disagreement on monetary or debt-management policies, or with official actions taken by the Board under your chairmanship. All who are familiar with your record recognize your devotion to the public welfare and the constructiveness that has characterized your leadership in the Federal Reserve System (Truman 1948).

Truman urged Eccles to "remain as a member of the Board and accept the Vice Chairmanship so that the benefit of your long experience and judgment will continue to be available and so that

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[12] A slot was available for Truman to make this appointment due to the death of Vice Chair Ransom. Truman nominated Thomas McCabe to be chair. McCabe is hardly a household name in Fed history but played a critically important role in negotiating the Fed-Treasury Accord in 1951.

you may carry forward legislative proposals now pending in Congress (Truman 1948)." Eccles remained on the Board, initially accepting but later declining the position of Vice Chair.[13]

Eccles stayed on the Board for three years and completed a memoir. The book's publication in the summer of 1951 coincided with his resignation. Eccles left the Board to launch a campaign for one of Utah's Senate seats.[14] He did not prevail in the primaries and then resumed his career as a businessmen and banker with his family's industrial and financial conglomerate.

<u>Conclusion: Eccles' Proposals in the Past Strengthen Federal Reserve Independence Today</u>

Despite all that, there may be a be some truth to the myth of Eccles as the founder of the modern, independent Fed. Ironically, Eccles' proposals that the Fed should serve as a monetary apparatus controlled by the President may help, in the end, to preserve the independence of the institution. The Congressional debate over Eccles' proposals leaves a voluminous record of Congress's intent when it crafted the modern Fed. The record clearly reveals that Congress wanted the President's hands far from the levers of monetary policy. This record may become a vital piece of evidence should disputes arise about the intent of Congress and the meaning of the Federal Reserve Act.

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[13] Previous scholars may have gained a different impression of Eccles's relationship with Truman from Eccles's own writings, such as his memoire. Our view, however, is that Eccles' reflections on the past vary, at times consequentially, from the documentary record and that he may have occasionally embellished or downplayed facts that did not fit the tale he was telling. Eccles did this during the debate over the Banking Act of 1935, for example, when he described aspects of the origins and history of the Federal Reserve and provided different rationales for his proposals to the House and the Senate. This issue will be discussed in greater detail in Richardson (forthcoming)."

[14] Eccles' desire to move from the Federal Reserve Board to the Senate had precedents. Two of the six men who preceded Eccles as chair of the Fed afterwards earned Senate seats, won repeated reelection to that office, and peppered him with questions when he testified during hearings on the Banking Act of 1935.

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