ARGUMENTS FOR A CENTRALIZED CONTROLLED BODY WITH GOVERNMENT OWNERSHIP OF THE FEDERAL RESERVE BANKS

First, The main argument in favor of taking over the Federal Reserve System and setting up a central bank completely owned and operated as a Governmental agency rests upon the desirability of having a centralized control over monetary and credit policy. It is felt that effective control would be much easier to adopt and to carry out if a single agency was given complete authority and charged directly and solely with absolute responsibility of maintaining sound credit conditions throughout the country.

One of the chief difficulties at present, in controlling the New York money market as well as the New York security market, is the inability of the Federal Reserve authorities to agree upon what policy shall be followed at any particular time. Moreover, the weakness and lack of courage on the part of the Federal Reserve Board to fully use the powers which it has under the law further tends to make effective credit control impossible. The essence of central bank policy is to make quick decisions and to follow these decisions with a rapid dispatch by whatever measures are deemed essential. At the present time the Federal Reserve is so composed that delay appears almost inevitable. In order to reach a decision on any change in policy there must be a meeting of the governors of the Federal Reserve Banks or the members of the Open Market Committee, which is appointed by the local Reserve Bank boards of directors,and the members of the Federal Reserve Board. There is delay at arriving at a decision in this meeting of minds and often a decision is in fact impossible. Then the results of the meeting must be taken back to the local boards of directors for approval. Although in practice the decisions once agreed on are almost assured of approval, the individual Reserve Banks still maintain a good deal of autonomy. They may, as was pointed out earlier, refuse to abide by the policies with regard to open-market operations when they involve a purchase of government securities in the open market. This situation presents a striking contrast to that which exists in England, where there is normally great cooperation. The Governor of the Bank of England realizes that the bank although a privately owned and completely independent institution must go along with the Government in times of stress. Hence, if a change in policy seems imminent, the Governor of the Bank of England meets with the Chancellor of the Exchequer together with the heads of the 5 large joint stock banks, which have branches throughout the country and control the great majority of the total commercial banking business. Thus, it is a small group which determines the policy that will be followed, and this group once such a policy is adopted has powers in its hands to see that the policy is carried out in a most efficient manner. The English "Big Five" Banks are of such a size that they overshadow the Bank of England and it is essential that close cooperation exists between the Bank of England and the large branch banks, and this has been uniformly true throughout recent times. It is somewhat of a case of the tail wagging the dog, but the bankers there realize that inasmuch as banking power is extremely concentrated there is a tremendous responsibility upon the English financial institutions and they have developed a much more social point of view than is true among American bankers.

To obtain a comparable degree of unified policy in the United States, it would be necessary to bring together the Governors of the Federal Reserve Banks, the Federal Reserve Board, including the Secretary of the Treasury and the Comptroller of the Currency, the heads of the 48 State banking departments and the presidents of some 14,000 banks in all parts of the country.

Obviously such unified policy as to credit conditions is impossible.

Second, It is to be noticed that the Federal Reserve Board has been receiving larger powers of control over both the Reserve Banks themselves and also the member banks of the Federal Reserve System. Particularly was this true in theprovisions of the Banking Act of 1933. However, although the law has conferred greater powers, there is considerable question whether these will actually be used effectively by the Board. One of the major criticisms that can be levied against the Federal Reserve Board in the past has been the fact that they have been more or less out of touch with the current problems which confront the banking system. In the first place, the Board is in Washington, whereas the open-market operations of the system are carried on almost exclusively in the New York money market and by the officers of the New York bank. Also in the conferences between the Board and the Governors of the Federal Reserve Banks the Board appears at somewhat of a disadvantage. The governors are much closer to the actual operation of the Federal Reserve Banks, they are often higher paid men with more practical experience in central banking operations and therefore it is probably true that they exert an unwarranted influence over the Federal Reserve Board. This situation could only be changed by attracting better type men to the Federal Reserve Board by giving them larger responsibilities, larger powers and surrounding the board members with the prestige that should accompany such power. In other words, if vigorous action in control of credit is desirable the central board must actually dictate the policies of the system and be composed of the type of men who are experts in the technique of control and are thoroughly grounded in the operations of the credit and banking system. Of course, this is a large order but only by facing the responsibility directly can we hope to arrive at a workable solution to our monetary and credit difficulties. To have continual repetitions of the chaotic conditions of the past few years can only mean the inevitable overthrow of the capitalistic system.

Third, The question of political influence is indeed one of great significance and it would be unfortunate to have a central control board subject to party politics or under the domination of political interests. However, I am inclined to think that the hue and cry which is continually raised on this question considerably overstates the case. The answer in my opinion is in creating the prestige which should automatically attach to a board of this type and thereby raise it above the plane of petty politics. It is in a similar fashion that the Supreme Court has acquired its position although its members are appointed by the President and in a sense are thus political appointees. Certainly a board with great powers of credit control is entitled to as much respect as is given to the Supreme Court.

Fourth, By authorizing the creation of a special body which is given board powers for monetary and credit control and upon which is placed the responsibility of maintaining sound credit conditions in the United States, Congress would be protected at least in part against public demands for violent changes in monetary policy during both ordinary periods and periods of emergency. As a general rule, the public is not scientifically minded and therefore can easily be swayed to demand ill-advised and untimely changes. In periods when prices are rising for example, it is difficult for individual Congressmen to oppose the demand of their constituents for more money and higher prices. If, on the other hand, a Congressman can simply point to a body which has complete control and definite responsibility, he is provided with a buffer against the unreasoning demands of the general public.

Fifth, The problem of the proper relationship of the Treasury to the central bank is a knotty one. It is true that there might be conflicts between Treasury policy and sound central bank policy which if the Treasury dominated the situation might lead to unfortunate consequences for the country as a whole. However, I do not believe that we should lean backwards in order to avoid any Treasury influence. Public finance and private finance are closely related and at times considerations of public finance are of vital importance to business welfare and it seems to me this will be more and more true in the future. In times of war and extreme economic emergency questions of governmental credit and public finance are of paramount importance and must be so regarded by the central banking authorities. In more normal periods fiscal needs should be placed on a parity with other considerations by the body entrusted with credit control. In my opinion there is much less danger in having the Treasury represented at the central bank than in having complete separation with possible conflicting programs being followed by the two organizations.

Perhaps I have given the impression in this memorandum that I think all our difficulties could be solved by monetary and credit control measures. Such an inference would be erroneous. However, I do think that the operation of our banking system, with its capacity for rapid expansion and contraction of credit in a large measure accentuates and intersifies the difficulties, and that vigorous methods of monetary control are extremely desirable. On the other hand, other steps must be taken by the Government in times of stress to support and make the monetary and credit control more effective. Governmental spending, relief, and public works programs must be resorted to in periods of severe depression. Moreover a greater public control over the direction and amount of new investment would help to provide greater stability in our economic system. Also central bank control can only be effective if there exists a sound banking system. Certainly the record of the American banking system is disgraceful and a drastic reform is essential.

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