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FOR THE ESTABLISHMENT OF THE NATIONAL MONETARY COMMISSION

June 1 (legislative day, May 23), 1949.—Ordered to be printed

Mr. Robertson, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 1559]

The Committee on Banking and Currency to which was referred the bill (S. 1559) for the establishment of the National Monetary Commission having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

The bill provides for the establishment of a National Monetary Commission which would be clothed with authority to make adequate studies to determine—

> what changes are necessary or desirable in the banking and monetary system of the United States, or in the laws relating to banking and currency, by reason of domestic or international considerations or both.

Specifically, the Commission would be directed to investigate the present requirements and methods covering the matters of legal reserves of banks, eligible deposits against such reserves, open market operations of the Federal Reserve banks, adequacy of eligible paper other than Government obligations, specie reserves, foreign-exchange fluctuations and any and all other factors in this or other countries which, in its judgment, may relate to the purposes set forth in section 1 of the bill.

Section 1 declares it to be the policy of Congress—

> to promote and maintain the utmost stability of domestic and international trade, to the end that orderly commercial relationships built up by the citizens of the United States of America both within and without the country shall remain as free as possible from uncertainty concerning and arising from both the relative and absolute values of the currency of the United States, in terms of both of commodities and of currencies of other countries.

The Commission would be composed of 18 members. Six would be appointed by the President, three of whom would be chosen from the executive branch of the Government and three from private life. Six would be appointed by the President of the Senate, three of whom would be from the Senate and three from private life. Six would be appointed by the Speaker of the House of Representatives, three of whom would be from the House of Representatives and three from private life. Not more than three members of any one of these three groups of six shall be from each of the two major political parties. The Commission would make such interim reports as in its judgment are desirable, and its final report and recommendations would be made to Congress within 10 days after the convening and organization of the Eighty-second Congress, with provision for extension of the time by concurrent resolution.

GENERAL STATEMENT

A National Monetary Commission was created by an act approved May 30, 1908. That Commission was composed exclusively of Members of Congress. It held extensive hearings and conducted numerous studies both in the United States, Canada, and several European countries. It produced 38 volumes of information, statistical data, and reports. After nearly 3 years' work the Commission made a final report and introduced measures designed to carry out its recommendations. Although the bills sponsored by the Commission failed of enactment, the work of the Commission provided the groundwork upon which the Federal Reserve Act of 1913 was based. The wisdom of that legislation and the sound and constructive administration of the law are now universally recognized.

In 1938 the Federal Reserve Board recommended that Congress consider means whereby the credit situation might be improved. This resulted in the adoption of a Senate resolution (S. Res. 125, 76th Cong., 1st sess.) approved August 4, 1939, under which the Senate Committee on Banking and Currency was authorized to conduct studies, hold hearings, and "recommend a national monetary and banking policy by which the monetary and banking authorities of the country shall be guided and governed," etc. Under pressure of urgent wartime problems the work planned by the committee under authority of this resolution was indefinitely postponed.

There has been no comprehensive official review of the whole monetary and credit system since that undertaken by the National Monetary Commission created by the act of May 30, 1908—a period of more than 40 years. During that period there have been profound changes brought about by two world wars, the tremendous alterations in governmental and private debt, and the greatly increased complexity of domestic and international financial interrelationships. The banking system of the country is no longer under the duress of wartime and postwar inflationary pressures, but it is plagued by problems that have grown out of the disturbances that have characterized the economy of the Nation and the world during that period, superimposed upon problems brought about by an unprecedented depression.

The Federal Reserve Board, to which Congress has delegated major responsibilities for regulation in the monetary and credit fields, has emphasized in successive annual reports to the Congress, beginning in 1945, that it is unable to carry out that responsibility effectively without significant changes in the banking laws. In his latest economic report to this Congress the President expressed the view that adequate means should—

be provided in order that monetary authorities may at all times be in position to carry out their traditional function of exerting effective restraint upon excessive credit expansion in an inflationary period and, conversely, of easing credit conditions in a time of deflationary pressures.

The committee feels that in order to deal adequately with a subject so important and complex, it is desirable and timely to vest in a bipartisan commission consisting of Members of both Houses of Congress, as well as members from private life, broad authority to study and report back to the Congress as promptly as practicable its recommendations for clarifying the responsibilities and improving the functioning of the country's banking, monetary, regulatory, and supervisory agencies, so that they may make their proper contribution to the attainment of the national objective of stable economic progress. Such a study would include a reexamination of existing banking laws from the standpoint of reserve requirements, open market and other credit-control powers, the purposes and functions of bank examination and reports, the issuance of Federal Reserve notes, the insurance of bank deposits, the framework within which the banking system operates, including the relationships and respective responsibilities of the various bank supervisory agencies, and the adequacy of equity financing for business enterprises. It is desirable and necessary not only to clarify the functions and purposes of banking and supervisory policies but also to assure that those charged with the duty of carrying out the policies of the Congress have at all times adequate means for meeting their responsibilities. Many intricate problems are involved for which appropriate solutions can best be devised after a thorough study by a commission of the Congress authorized and directed to hear the testimony and draw upon the advice of those best qualified by training and experience, both in and out of the Government.

Recently there has developed a definite sentiment in banking circles for such a review. The president of the Federal Reserve Bank of New York and the chairman of one of the largest banks in that city have publicly urged that a National Monetary Commission be appointed to make a thorough study of the country's entire banking and monetary set-up. A number of leading bankers have indicated that they would favor the establishment of such a commission "if there were assurance that it could be kept free from undue political influence"—a precautionary attitude probably stemming from the fact that the former Commission was composed exclusively of political personnel. Pointing out that present conditions make clear "the need for constructive action, of a long-term character, in the field of monetary and banking legislation," the president of a large New York bank recently told his State bankers association:

In order to determine the constructive action which is required, a monetary and credit commission should be established with authority, powers and expert assistance to make the necessary studies and report its findings to the Congress.

Discussing the problem involved in the proposal to require nonmember insured banks to carry reserves with the Federal Reserve banks, in hearings on S. 1775, Mr. Alfred Williams, president of the Federal Reserve Bank of Philadelphia, said:

I do not think we are ready for a solution of the problem. But the problem will not be downed by the failure of this committee to include the insured nonmember banks. It will come up, I think it should come up before a national monetary commission. I think it is high time that we take 2 or 3 years and get the parties at interest to say in effect, "What must we do to be saved in this whole area?" Because it is an area that affects the stability of economic activities. It is an area that is pervasive. Even bankers do not quite fully realize how it pervades all aspects of our economy.

Chairman Harl of the Federal Deposit Insurance Corporation, in discussing the bill (S. 1775) which would make the supplemental reserve requirements apply to nonmember insured banks, said:

We have not declined to endorse it, but we feel that further study of that situation should be made because of the fact that a similar provision was included in the 1935 banking act, and in 1939 the Congress saw fit to repeal it. We feel that additional study is necessary. We understand there has been a resolution (S. 1559) proposed for a monetary commission to study the operations, not only of our organization, but likewise the Comptroller's office, as well as the Federal Reserve System.

At the hearings on S. 1775 the Chairman of the Board of Governors of the Federal Reserve System expressed similar views, as indicated in his letter set out below responding to the committee's request for the Board's attitude on S. 1559.

Any consideration of Government financial policy for economic stability reveals a number of problems to which much thought should be given. Among those which might well be thoroughly studied by a commission such as is proposed by S. 1559, are the following:

1. *Procedure for making and coordinating financial policy.*—This is a problem which involves cooperation between the administration and the Congress, as well as between the Government and representatives of the banking interests of the country.

2. *Monetary policies.*—This involves the functions to be performed by the Federal Reserve System in its actions affecting the supply of money and bank credit, the principles by which the System should be guided in the discharge of its functions, and the establishment of specific criteria or rules for the assistance of the Federal Reserve System in interpreting these principles.

3. *Monetary control powers.*—The powers of the Federal Reserve System might well be reevaluated in the light of the growing recognition of the responsibilities of the System and the situation created by the existence of a huge Federal debt. This involves consideration of the limit up to which the Federal Reserve Board can increase reserve requirements, the control of consumer credit as a permanent power of the Federal Reserve Board, and whether some measure of control should be established over types of credit other than that of commercial banks, such, for instance, as real-estate loans, the investments of life-insurance companies, and credits extended by other institutions.

4. *The supply of equity capital.*—The continued stability and progress of the economy requires a large sustained flow of equity capital into investment. Experience of the postwar years, especially, raises a serious possibility that the necessary supply of equity funds may not be forthcoming. Ways and means of meeting this problem need investigation.

5. *The banking structure.*—As a result of piecemeal evolution over a period of many years there are four types of commercial banks—National banks, State banks that are members of the Federal Reserve

System, State non-member insured banks, and State nonmember noninsured banks. There are 48 different State systems of banking, each subject to somewhat different laws and supervision. A reexamination of the whole structure to determine whether or not the present system is adequate and an examination as to what possibilities exist for simplification and rationalization would seem to be worth while.

6. *Monetary standard.*—The question of the proper monetary standard for the United States under existing conditions should be considered by the Commission, including proposals to return to the gold coin standard. Careful consideration of the present system of a regulated gold standard which reserves gold for international payments is desirable. Other standards have been proposed, as well as modifications of the existing system. They all deserve study and investigation, and a definitive recommendation by the Commission on this subject would be of great value to the country and to the world.

7. *International finance.*—While your committee is aware of the fact that the subject is under constant study by Government and international agencies operating in the field, with the greatly increased importance to the United States of international finance, and the world's large demands upon American financial resources, an independent review of the country's policies in this field would be of great value. The structure and operation of existing organizations for international financial transactions, both government and private, could be assessed by the Commission and recommendations for American policy in this area could thus be formulated.

These are some of the problems which should engage the careful attention of the National Monetary Commission proposed by S. 1559. Their solution, the committee believes, would be of monumental service to the Nation and the World.

In response to the request of the chairman of the committee the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury submitted the following reports:

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington, May 18, 1949.

Hon. BURNET R. MAYBANK,
Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: This is in response to Mr. McMurray's letter dated April 13, 1949, requesting an opinion as to the merits of S. 1559 providing for the establishment of a National Monetary Commission.

This bill would establish a bipartisan National Monetary Commission of 18 members which would be directed to study and inquire into what changes are necessary or desirable in the banking and monetary system and laws of the United States and to investigate, among other matters, the legal reserves of banks, open market operations of the Federal Reserve banks, eligible paper, and foreign exchange fluctuations. The Commission would be required to make its final report to Congress within 10 days after the Eighty-second Congress is convened and organized.

In the statement which I made on behalf of the Board before Senator Robertson's subcommittee of the Senate Banking and Currency Committee on May 11, 1949, I included the following with reference to a review by Congress of the authority and responsibility of the Federal Reserve System:

"We in the Federal Reserve System are naturally concerned over the areas of controversy that surround the System's functioning and responsibilities as a central banking, monetary, regulatory, and supervisory authority. We trust that Congress will review its delegation of authority and responsibility to the System to be sure that they are commensurate with each other and with the objectives established by Congress. Such a review would include consideration:

(1) of the System's open-market powers and their relation to Federal financing and the administration of the public debt; (2) of the use of selective credit controls such as those over security loans and consumer installment loans and of the proper sphere for the application of such types of control; (3) of the distribution of regulatory and supervisory power among the various Government agencies; (4) of the need for some mechanism of policy coordination on the domestic financial front as we have available through the NAC on the international financial front; (5) of the objectives of central banking and supervisory policies; and (6) of the relation of the Federal Reserve System as a central banking organization to the banks of the Nation, both member and nonmember.

"In any such review the role an function of reserves will inevitably receive prominent consideration. * * *"

"I hope the committee will include in its review of our financial system an inquiry into the adequacy of our supply of equity capital. * * *

The Board is in agreement with the above statement which I made before the Senate Banking and Currency Subscommittee. We feel that an investigation under authority of Congress of the banking and monetary laws of the United States would be desirable and could be expected to form the basis for constructive legislation in this field.

Sincerely,

THOMAS B. MCCABE, *Chairman.*

TREASURY DEPARTMENT,
Washington, D. C., May 24, 1949.

Hon. BURNET R. MAYBANK,
Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: Further reference is made to the request of your committee for the views of this Department on Senate Joint Resolution 9 and S. 1559, proposed legislation to create a National Monetary Commission. S. 1559 is more comprehensive in scope than Senate Joint Resolution 9, and it is understood that your committee wishes the comments of the Treasury Department to be directed to that measure.

S. 1559 contains a declaration that it is the policy of Congress to promote and maintain the utmost stability of domestic and international trade, to the end that orderly commercial relationships both within and without the country shall remain as free as possible from uncertainty arising from both the relative and absolute values of the currency of the United States, in terms both of commodities and currencies of other countries. In pursuance of this policy, the bill would establish a bipartisan National Monetary Commission consisting of 18 members, six each to be appointed by the President of the United States, the President of the Senate, and the Speaker of the House of Representatives. Nine members of the Commission would be appointed from private life, while three each would be appointed from the executive branch of the Government, the Senate, and the House of Representatives. The Commission would inquire into desirable changes in the banking and monetary system, or in the laws relating to banking and currency, by reason of domestic or international considerations. It would also investigate the present requirements and methods covering legal reserves of banks, eligible deposits against such reserves, Federal Reserve bank open market operations, adequacy of eligible paper other than Government obligations, specie reserves, foreign-exchange fluctuations, and other matters pertaining to the declaration of policy. The Commission would make a final report and recommendations to the Congress within 10 days after the convening of the Eighty-second Congress.

The Treasury Department is of the opinion that there is no urgent need for an exhaustive investigation of the nature proposed by S. 1559. The Department believes that in the main the domestic and international fiscal and monetary policies of the Government are designed and are being executed in the best interests of the United States. These policies and practices are under constant review by the responsible Government agencies with a view to effecting improvements and to adapting them to changing conditions. It is doubted if a commission which would function for a limited period of time could make recommendations for fiscal and monetary policies covering future periods, the economic conditions of which could not be predicted. It is also suggested that the possibility of creating international and domestic currency and exchange uncertainties might well outweigh possible benefits of establishing a monetary commission at this time.

Senate Concurrent Resolution 26, and House Concurrent Resolution 54, identical concurrent resolutions, would direct the Joint Committee on the Economic Report to conduct an investigation into certain economic and fiscal matters including the problem of the effectiveness and coordination of monetary, credit, and fiscal policies in dealing with general economic policy. Senate Concurrent Resolution 26 has been passed by the Senate and House Concurrent Resolution 54 has been reported from the House Committee on Rules. It would appear that the investigation by the proposed National Monetary Commission would overlap investigation proposed by Senate Concurrent Resolution 26 and House Concurrent Resolution 54.

The Treasury Department believes that there will be little benefit to be gained from the establishment of a national monetary commission at this time and therefore does not recommend enactment of S. 1559.

This report has not been cleared with the Bureau of the Budget.

Very truly yours,

(s) JOHN W. SNYDER,
Secretary of the Treasury.