

March 29, 1938.

To Board of Governors  
From Mr. Williams, Assistant Counsel

REACTIONS OF MEMBERS OF BANKING  
AND CURRENCY COMMITTEE OF THE HOUSE-  
FROM HEARINGS ON THE PATMAN BILL

Generally the reaction of members of the Committee is against the Bill as it is drawn as being an attempt carelessly and casually to alter a fundamental part of the monetary system without sufficient study or investigation.

A reaction equally as strong is that the Committee is seeking earnestly to do something in the way of legislative action to more adequately carry out what they seem to conceive to be their duty and responsibility under the Constitution "to regulate the value" of money.

The above reaction is noticed in that even the members who seem to have an earnest desire to be both conservative and constructively helpful have, from time to time during the hearings, advanced the thought that it was possibly the duty of Congress to direct the Federal Reserve with some mandate to let them know the policy of the Congress and what is expected of the Federal Reserve in the way of attempts at stabilization. As an example to more clearly illustrate what I mean, Representative Williams, who throughout the hearings, has diligently defended the actions of the Federal Reserve Board says that he would be glad to grant additional powers to the Federal Reserve, if the powers would tend to effect stability; that he thinks, possibly, it is the duty of the Congress to issue a mandate with such additional powers as necessary to carry it out which would share with the Federal Reserve Board the responsibility against such complaints as those now generally advanced by uninformed people as to the responsibility of the Federal Reserve for the present recession. This reaction of Representative Williams is general to the extent that they seem to be casting about to pass something upon which they can satisfy themselves.

#### SUMMARY OF MAIN INQUIRIES DEVELOPED DURING HEARINGS.

I believe it could be fairly stated that Mr. Patman's theories and the present Bill sponsored by him have lost ground with the Committee during the hearings and that Senator Owen, the chief proponent of the Bill, has merely added to the confusion of the Committee without being convincing to them. All of this, however, has led the Committee to the following unsatisfied inquiries:

1. Whether or not they could better discharge the duties placed upon them by the Constitution by further delegation of additional powers to the Federal Reserve?

2. What is the actual process and mechanics of the issuing of circulation notes?

(There is surprising confusion as to this matter among the members of the Committee.)

3. What would the effect of stabilized price level be upon economic stability if the stability of the price level could be effected?

(Although not stated in these terms by members of the Committee, it is apparent that they have not thought of economic stability but they are dissatisfied that price stability would bring back prosperity.)

4. They are still confused as to the effect of the action of the Board of Governors in raising the reserve requirements and as a corollary to this they all seem to be pretty generally of the opinion that the effect of the action was detrimental. It is true that the Chairman, Mr. Steagall, and the other better informed members of the Committee agree that the action of the Board should have been taken but they seem to think that it was not properly surrounded by pronouncements against deflation or against other action tending to allay deflation fear psychology. Along with this feeling, Steagall, particularly, seems to feel that although there may have been enough actual reserves left with the larger banks or even with the average bank that in some sections the actual reserve was not sufficient to satisfy local credit needs and that there was an actual restriction of credit as well as a restriction from deflationary fear psychology.

5. Has there been any insinuating harmful influence on the Board through bankers on the Open Market Committee and the Federal Advisory Council?

One member stated categorically that "he knew of his own personal knowledge" that for some months prior to the action of the Federal Reserve in raising the reserve requirements that the big bankers persistently importuned the Board

to take action and that the motive of the bankers was a selfish one for their own profit, although he believes the Board of Governors acted sincerely and from what they thought was a proper motive.

6. Is the Federal Reserve Board in violation of the law in not fixing an interest charge on circulation notes?

#### TOPICS

##### Defensive:

1. Delegation of power which satisfied constitutional responsibility of Congress.
2. Mechanics of issuing circulation.
3. Economic stability as against price level stability.
4. Explain action in raising reserve requirements.
5. Lack of harmful "banking" influence through Open Market Committee or Federal Advisory Council.

##### Offensive:

1. Purpose of interest rate on circulation as permitted by Congress in the discretion of the Board.
2. Any constructive alternative suggestions to satisfy the Committee's feeling for some kind of action.

Respectfully,

(Signed) KIT WILLIAMS

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