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Glass Bill  
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March 29, 1932.

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Honorable Peter Norbeck, Chairman,  
Committee on Banking and Currency,  
United States Senate,  
Washington, D. C.

Dear Senator Norbeck:

On March 17, 1932, I received a letter from Senator Glass inclosing copies of Senate Bill 4115, and stating that the Banking and Currency Committee would be glad to have the Federal Reserve Board make any comments or suggestions that in its judgment would seem desirable. Accordingly, there is inclosed herewith for the consideration of your Committee a memorandum containing the Board's comments and recommendations.

The subjects dealt with in the bill may be classified under three general heads: (1) Those relating more directly to the Federal Reserve Board and the reserve banks; (2) those concerning primarily member banks, and (3) those dealing with affiliates of member banks.

The Federal Reserve Board is in sympathy with the purpose of the bill to strengthen the supervision of the Federal Reserve System over general credit conditions and to invest the Federal reserve authorities with certain disciplinary powers in relation to banks that pursue unsafe and unsound policies or abuse the privileges of membership. The Board's recommendations on this subject are incorporated in its proposed revision of



Sections 3 and 29 of the bill.

With respect to the section of the bill dealing with open market operations, the Board calls attention to the fact that there is already in existence an open market committee on which each of the Federal reserve banks has representation. This has come about as the result of natural development. The Board believes that it would be inadvisable to disturb this development by crystalizing into law any particular procedure. The Board believes that nothing further is necessary or advisable at this time than an amendment clarifying its power of supervision over open market operations of the Federal reserve banks and their relationships with foreign banks, as set out in the memorandum attached.

The Board is not in sympathy with the provisions of the bill discriminating against member bank collateral notes. Experience shows that the particular instrument on which Federal reserve credit is obtained is not an adequate test of the use to be made by the member bank of the proceeds of the credit and that an attempt to control speculation through restrictions on member bank collateral notes would not be effective in accomplishing the purpose of this section of the bill. Indeed, it probably would interfere seriously with the convenient and economical operation of the system. In this connection, the Federal Reserve Board desires to renew the recommendation made in its annual reports for several years, that the maturity for which advances may be made to member banks on their promissory notes secured by paper



which is eligible for discount be increased from fifteen to ninety days. Such an amendment would be especially helpful to country banks.

The Board is of the opinion that the adoption of a system of reserves based on velocity of accounts as well as on their volume, as recommended by the System's Committee on Reserves, would be an important step in strengthening the influence that the Federal Reserve System could exert in the direction of sound credit conditions. The section of the bill dealing with reserves would accentuate rather than reduce the inequalities that have grown up in the distribution of reserves between different classes of member banks. The Board also believes it should not be overlooked that this section of the bill would exert a tightening influence on credit conditions at times when it would be contrary to the public interest.

The Board is in favor of establishing a liquidating corporation, but proposes to limit the scope of its operations to member banks and suggests a different method of financing it, together with certain changes in the provisions for its administration.

If the section on branch banking is enacted in the form proposed in the bill, it is suggested that certain sections of existing law be modified so as to bring them into harmony with the purposes indicated in this section of the bill.

With respect to affiliates, the Board believes that important reforms to be accomplished at the present time are the



granting of power to the supervisory authorities to obtain reports and to make examinations of all affiliates of member banks and the prescribing of limitations on the loans that a member bank may make to its affiliates. The Board realizes that many evils have developed through the operation of affiliates connected with member banks, particularly affiliates dealing in securities. The attached memorandum contains a draft of a provision for the separation of such affiliates after a lapse of three years.

The Board takes the view that legislation further materially restricting the character of member bank loans and investments is not desirable at a time when the country's banking system is going through a period of severe readjustment. Some of the provisions of the proposed bill would have a tendency to bring about further contraction of credit and thus retard the recovery of business. It is for these reasons that changes in a number of sections of the bill are suggested.

It should be recognized that effective supervision of banking in this country has been seriously hampered by the competition between member and nonmember banks, and that the establishment of a unified system of banking under national supervision is essential to fundamental banking reform.

Copies of this letter and the inclosed memorandum are being sent to Senator Glass, and the Board will be glad to supply you with copies for the convenience of each member of your Committee.

Very truly yours,

Eugene Meyer,  
Governor.