

MEMORANDUM ON THE BANKING BILL OF 1935

As you know, the banking bill proposed to concentrate authority in one public body, the Federal Reserve Board. Strong opposition arose on the ground that too much power was being placed in a political body.

Recognizing the fact that three members of the present Board of eight, namely, the Secretary of the Treasury, the Comptroller of the Currency and the Governor of the Board were the direct representatives of the Administration in power, and further recognizing that there was a widespread lack of confidence in the capacity of the present Board, you and I felt ~~that it would~~ be inadvisable, as you will recall, to oppose reserve bank representation of five governors on the open market committee, on condition, however, that the leaders of the American Bankers Association would withdraw their vigorous opposition and support the passage of the bill.

You will further recall that the bankers rigidly insisted upon a six to five arrangement (removal of the two ex officio members) and that as a result they gave no support to the bill.

Because of this and the further fact that the bill as reported by the Senate Committee not only removes the Secretary and Comptroller, but provides for the appointment for long terms of an entirely new Board of seven members, two of whom must be bankers, and not more than four of whom may be of the same political party, all of which is expected to make for an independent Board, I feel that there is no longer any obligation on our part not to oppose the appointment of five governors on the open market committee. Such an arrangement as proposed in the bill as now reported would be inconsistent and unjustifiable for the following reasons:

Responsibility would remain badly divided, the Board having authority over discount rates and reserve requirements, while the open market committee would have control over open market operations so that instead of unified policy, there might be division and deadlock, with the Board attempting to pursue one policy as to discount and reserve powers while the open market committee elected to pursue a contrary open market policy.

The requirement for a bi-partisan Board during a Democratic Administration might conceivably cause the three Republican members to unite with enough of the governor representatives to produce a Republican majority in control of policy, or vice versa under a Republican Administration.

There would be seven bankers out of the twelve composing the open market committee, an excessive banker representation. Incidentally, this even number might produce a six to six tie.

Finally, the Board proposed by the Senate bill must be considered independent and in no sense a political body, so that there is no longer any justification for combining it with reserve bank representation.