BANKING BILL OF 1935

Whatever reasons there may have been for governor representation on the open market committee have been eliminated by the Senate bill and whatever disposition existed on the part of the Administration not to oppose a reasonable compromise can no longer be regarded as implying any obligation.

In brief the Senate bill has completely altered the situation because by creating an entirely new reserve board with long terms, removing the ex-officio members, requiring that the Board be bi-partisan and that two members must be bankers, it removes such objections as had been raised by the bankers to being without representation. They objected to the bill as it passed the House because it provided that the existing board act with five governors in an advisory but non-voting capacity, the bankers argument being that the Board was notoriously weak, that it lacked public confidence, and that it was composed entirely of appointees representative of the Administration in power. In a spirit of conciliation and with the understanding that the opposing bankers would furnish support for the measure, it appeared advisable not to oppose a compromise whereby, if the present Board were to be retained, the five governors be given a voting instead of merely advisory status. However, the bankers, insisting first upon a five to four, then upon a six to five arrangement, in either case giving the Board a majority of but one, refused to accept suggested compromises and did not withdraw their strenuous opposition to the bill.

While creating an entirely new and designedly independent Board of seven members, and thus removing the grounds upon which the bankers based their original objections, the Senate bill nevertheless gives the governors--otherwise private banker representatives--five votes on the open market committee. Aside from the fact that this number (twelve votes) might lead to a deadlocked tie, such an arrangement means that the bankers would have seven out of the total of twelve

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votes. In other words there would be two bankers required on the Board and five governors voting on open market policy, a disproportion of banker representation which would be difficult to defend from the standpoint of this or any Administration. Moreover, such an arrangement is open to the further practical objection that whereas the original purpose of the Administration bill was to place all three existing but badly diffused monetary powers in a single, responsible body, the Senate bill leaves discount rates and reserve requirements in the Board but puts open market policy in the Board plus five governors, so that it would be possible that the two groups would work at cross purposes, with the representatives of the private banker viewpoint able to obstruct or frustrate the execution of policy deemed essential from a national standpoint by the non-bankers.

Beyond all this, it is a fundamental principle demonstrated by long experience that to place representatives of special vested interests upon a permanent government regulatory body can result only in violent conflict and in stultification of that authority's functions.

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July 10, 1935.

MEMORANDUM FOR THE PRESIDENT:

1. Attached is the memorandum you mentioned this morning in connection with the open market committee.

2. Also attached is a memorandum furnished to Senator La Follette at his request, which gives a more extended discussion of the reasons against governor representation.

If there is to be any compromise on this question, I would suggest that the new Federal Reserve Board be reduced from seven to five and that two governors be added under a rotational system, making a committee of seven, who would be given all three powers of monetary policy. A Reserve Board of five in any case would be preferable to a Board of seven and would insure far better results and a much more efficient administration of the Federal Reserve System.

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