D I S C U S S I O N   O F   P R O P O S E D   P L A N

OBJECTIVE

Proposal

All the powers of the Federal Reserve System shall be directed towards the improvement of banking and credit conditions and the regulation of the volume and cost of credit with a view to economic stability and the fullest sustainable employment of the nation's human and material resources. Whenever in the opinion of the Board the attainment of this objective is impeded by factors beyond its control it shall be the duty of the Board to report the situation to the President or to the Congress.

Discussion

The Board believes that this is the proper objective of Federal Reserve policy and, in practice, it has endeavored to further this objective with the limited means at its disposal. It believes therefore that this objective should be stated in the law.

The Board is fully aware of the fact that there are many nonmonetary factors that are as powerful in shaping the course of economic events as are monetary developments. Monetary objectives cannot be carried out effectively unless the other factors are propitious to the attainment of these objectives. The Board has no direct responsibility for policies pursued in other lines, such as, for example, gold and silver policies, the policy of Government borrowing, spending, and lending, the policies in relation to foreign trade, to public works, to labor, or to agriculture.

At the same time the fact that the Board finds it impossible to carry out its objectives by the means at its disposal should not relieve it of the duty to study these other factors and to report to the President or to Congress its views on the situation together with such recommendations as it may wish to make. The Board being an independent nonpolitical body with continuous and intimate contacts throughout the country and with experienced and trained personnel which as a part of its regular duties must be constantly in touch with conditions should be utilized for the purpose of giving the benefit of its information and analysis to those responsible for other phases of our economic life. This provision will also tend to overcome the traditional opinion that, since money is the medium of all business, economic conditions can be regulated by monetary means alone. It is hoped that it will contribute to a better understanding of the close relationship that exists between various economic forces and will result in better coordination of these forces to serve the public interest.

TERMINATION OF PRIVATE OWNERSHIP OF FEDERAL RESERVE BANKS

Proposal

Each Federal Reserve bank shall repurchase and cancel its capital stock and shall operate thereafter on its surplus. After all expenses have been paid and necessary reserves provided for, the remaining net earnings shall be added to the surplus until the surplus amounts to as much as the capital and surplus as of January 1, 1939; and thereafter all remaining net earnings shall be paid to the Government. Retain existing provision that, upon dissolution of Federal Reserve banks, the surplus shall go to the Government.

Discussion

In order to enable the Federal Reserve authorities to make an effective contribution toward economic stability, they should have additional powers; it is appropriate that Congress require as a condition precedent that the System be entirely free from private banking control.

The Federal Reserve banks are governmental institutions and are operated solely in the public interest. The fact that they have been privately owned since the beginning of the System has been a source of growing complaint by increasing numbers of Members of Congress and of the public. Under present law, the class A directors are active bankers elected by the member banks and naturally consider their service as directors to be representative of the stockholding banks. Situations have arisen where a member bank needed the assistance of the Federal Reserve bank and was loath to avail itself of such assistance due to the presence on the bank's board of an officer of a competing institution.

The dividends paid by the Federal Reserve banks on their stock absorb a substantial part of the System's earnings. There is at present sufficient capital and surplus in the Reserve banks to permit the retirement of the stock and still leave enough surplus to carry on the operations of the System under present conditions. Provision, however, should be made for reestablishing the present amount of capital and surplus so as to insure the System against future contingencies.

While it is proposed that active bankers no longer be on the Reserve bank boards, it is proper that the private banking system be able to present its views to the supervisory authorities and this is provided for through the election of three of the directors at each Reserve bank by the banks of the district and the present organization and functions of the Federal Advisory Council.

DIRECTORS OF FEDERAL RESERVE BANKS

Proposal

Provide for a Board of seven directors, three elected by insured banks and three appointed by the Board of Governors, none to be directors, officers or employees of banks. Such directors to serve for three-year terms, one term of each class expiring each year and each insured bank to have one vote in election of directors. No director shall serve for more than three full terms of three years each. The seventh director to be elected annually by bank supervisory authorities of States included in district.

Discussion

With the retirement of the stock of the Federal Reserve banks there is no longer any reason for the election by the banks of the district of a majority of the directors. It is proposed that these banks continue to elect three directors who would be comparable to the present class B directors, who are not bankers.

The limitation on continuous service is desirable since it has been demonstrated that without it, influential bankers frequently serve so long that there is a crystallization of control in the board and a consequent domination of the Federal Reserve bank by one or two directors. A rotation of directors after three full terms would prevent such control and at the same time would permit a director to serve for some time after he has become familiar with the affairs of the Reserve bank.

The provision respecting the seventh director is a recognition of the fact that of the fourteen thousand odd insured banks, approximately nine thousand operate under State charters and are examined and supervised by State authorities. The presence on the Reserve Bank board of a representative of the State banking authorities of the district should promote better coordination between the Federal and State supervisory agencies.