BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 9, 1948

To Mr. Eccles

From Mr. Carpenter

Subject:

This office has received from the Secretary of the Federal Advisory Council the attached copy of the Council's views on the preliminary staff report of the Hoover Commission on the Federal Reserve Board. You will recall that President Brown stated the views of the Council in this connection at the last meeting of the Council with the Board. Although the attached statement covers somewhat the same ground as the report made by President Brown at the meeting with the Board, it is in entirely different form. A copy of his statement at that time, as recorded in the minutes of the meeting, is also attached.

Attachments

MEMORANDUM

to the

BOARD OF GOVERNORS

from the

FEDERAL ADVISORY COUNCIL

Relative to the Staff Report on the Federal Reserve Board for the Committee on Independent Regulatory Commissions of the Hoover Commission

The foreword of the preliminary Staff Report on the Federal Reserve Board states that the Report has not yet been considered by the Committee on Independent Regulatory Commissions. It further states that "it reflects only the views of the staff member who prepared it and is still subject to revision by him." Consequently, no attempt is made in this memorandum of the Federal Advisory Council to analyze in detail and exhaustively the subjects discussed in the preliminary Staff Report. The Council wishes to state some of the broad principles which it believes merit serious consideration in any discussion of the functions of the Federal banking and credit agencies.

1. The Council believes in the maintenance of the dual banking system. No change should be made which would weaken this system. Even if it were desirable to have a single unified banking system, it would be politically impossible to establish it at the present time. Experience over many years indicates that the checks and balances which a dual banking system provides, as well as the healthy competition which it promotes, have been constructive and helpful in the growth and development of the American economy.

2. Although historical experience indicates that a nation cannot have a completely independent central bank, it is highly desirable that

the central bank have the maximum practical independence of thought and action.

The difficult problem is one of maintaining reasonable independence of the Board, while providing at the same time the desired cooperation with the objectives of the Administration. The Board should obviously not be subservient to the Treasury and to every change in its viewpoint. However, the Board must necessarily find practical means of cooperating with the Treasury in the development of sound fiscal and monetary policies.

The Council does not approve the suggestion in the Report for reducing the size of the Board of Governors to five members. It would lessen the prestige and influence of the Board, and it might create the uncertainty of possible changes in the size of the Board whenever a new Administration took power or at other times. The Board is not too large now for the effective discharge of its important responsibilities.

The Council does not believe the proposal for an Under Secretary of the Treasury for Banking would be practical. In discussions of important matters of monetary policy, when he would be expected to express Treasury policy, he would undoubtedly be reluctant to state his viewpoint until such time as he had had time to confer at length with the Secretary of the Treasury. Experience in previous years when the Secretary of the Treasury served on the Board also was not satisfactory.

3. The Council does not favor the creation by statute of an Economic Policy Council which would be set up to facilitate making and executing "Federal policy with respect to credit, finance, lending, bank supervision and other economic activities." An Economic Policy Council with these responsibilities would weaken the importance and influence of both the Secretary of the Treasury and the Board of Governors. In addition, ample authority now exists, without further legislation, for the President

to establish an Economic Policy Council.

4. The Council favors substantially higher salaries for the members of the Board of Governors so that the remuneration may bear some relationship to the responsibilities of the Board, and so that men of the highest competence may find it possible to serve in this capacity.

5. The Council believes the maintenance of the independence of the individual Federal Reserve banks is of special importance. The directors of the individual Federal Reserve banks should continue to have the authority to elect the presidents of their respective banks, and the presidents of the Federal Reserve banks should continue their present participation in the activities of the Open Market Committee. Adequate salaries and reasonable independence in the management of the individual Federal Reserve banks offer the greatest assurance that men of ability will find executive positions in these banks attractive.

6. The Council is opposed to any program which would place the functions of bank supervision and examination under the control of the banking agency which has the responsibility for monetary policy. The Council does not believe it is sound to combine bank examination and supervision with the objectives of fiscal and monetary policy. Bank examinations should be objective and should not be used to carry out fiscal and monetary policies.

Because of the particular responsibilities which they discharge daily, bankers are in the best position to determine the practical wisdom of fiscal and monetary policies. They may, on occasion, feel impelled to criticize such policies, and they will be reluctant to do so if bank examinations and supervision are under the control of the banking agency making policies. Bankers who are critical may fear retaliation in bank examinations. To restrict in any way the freedom to speak freely would be unfortunate both for the banking system and the American economy.

December 3, 1948.