

(Excerpt from minutes of meeting of Federal Advisory Council with the Board on November 16, 1948)

1. The Council believes in the maintenance of the dual banking system, that the checks and balances that this System provides have been constructive in the past, and that it is desirable that they be maintained. While the Bach report indicates that the dual banking system is illogical, it is politically useless to try to abolish it.

2. The Council realizes the problem of maintaining the independence of the Board of Governors and at the same time providing for cooperation with the administration, but some independence of action and thought on the part of the Board is imperative. The Council realizes that the original concept in which the Board would act as the "supreme court of finance" and have the independence of the Supreme Court has not worked, and that as a long-run proposition the Board has had to go along with the administration in power. The Council believes, however, that some independence of thought and action is necessary, that the Board should not be subservient to the administration or the Treasury, and that while in the last analysis the Board would go along with the Treasury there should be independence enough so that it would not be in effect a bureau of the Treasury. The Council thinks that the suggestions in the Bach report for changes in the membership of the Board and provision for an Under Secretary of the Treasury for Banking as a member of the Board would be undesirable because it would reduce the importance and independence of the Board and its ability to stand out against the Treasury.

3. The Council does not favor the Economic Policy Council proposed in the Bach report for the reason that it would reduce the importance of the Board. Furthermore, it is not necessary. The Administration, through the Bureau of the Budget or otherwise, should bring about the necessary coordination through informal procedures without having the Economic Policy Council. The Federal Advisory Council favors higher salaries for the members of the Board as well as for cabinet members and others.

4. The Council believes that the maintenance of a large degree of independence in the individual Federal Reserve Banks is desirable as a means of rallying support of the Federal Reserve System. It also believes that the present system of electing directors, which is heavily weighted

in favor of the smaller banks, should be maintained. The Council thinks that the Presidents should continue to be elected by the boards of directors rather than as proposed in the Bach report. Participation of the Presidents in the Open Market Committee should be continued in order to continue the representation of the banks in that body. If the Presidents were appointed in the manner suggested in the Bach report there would be less likelihood of their being willing to speak out against the Board as they do at the present time, which would weaken the support of the System.

5. The Council would be opposed to the suggestion in the Bach report that the function of examination and supervision of all insured banks be placed under the Board of Governors because:

(a) Bank examination should be objective and confined to the determination of the solvency of the banks and whether their lending policies are sound and they are observing the law. This function should not be used to carry out monetary policies.

(b) The most intelligent criticism of the Board and its policies should come from the banks. That criticism would tend to be stifled if examination and supervision were given to the body responsible for formulating monetary policies. Banks which were critical of the Board might fear retaliation through the examining department of that body, which would be detrimental to the System. There have been instances in the past in which it was felt that the office of the Comptroller of the Currency used the examination procedure as an instrument of retaliation.