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Hoover Commission Recommendations
and the
Federal Reserve Board

The following review, which was originally prepared in tentative form several months ago when the Hoover Commission was releasing its first reports, has been revised for reference use. Its purpose is to indicate what is relevant to the Board in the Commission's documents, with no attempt to discuss the merits of the Commission's recommendations.

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The Hoover Commission made the Federal Reserve Board the subject of a task force study, and it has made besides many references to the Board, direct and indirect; but its views about the Board are not presented as a single set of recommendations for Congress to consider enacting into law. The Commission seems to have intended no radical change in the Board, in comparison to what it recommends in other quarters, though some of its recommendations might have serious effects on the Board, depending on how they were taken.

At many points, the question whether the Board would be affected by a given recommendation is a matter of opinion or of interpretation. By going far into conjectures and possibilities, one could lengthen his analysis of the reports indefinitely. Instead, the present aim has been to judge the recommendations practically and reasonably in the light of existing conditions.

I.

The most comprehensive set of comments upon the Board is in the task force study on Regulatory Commissions, from which the following recommendations are taken:

> That a national monetary council be established in order to coordinate domestic Federal monetary fiscal-lending policy. This council would include regularly the heads of the Treasury, the Budget Bureau, the Federal Reserve Board, the combined lending agencies, and others, including the Securities and Exchange Commission, when expedient. (Appendix N, pp. 111-112)
>
> That the policy-making powers of the Federal Reserve Board and Open Market Committee be consolidated in a new, smaller board. (Appendix N, p. 113)
>
> That this new, smaller board comprise three members with six-year terms, subject to reappointment; that the salaries of board members and top staff be substantially increased; and that present stipulations as to representation of geographical areas be modified and those as to financial, industrial, and commercial interests be dropped. (Appendix N, pp. 114-115)
>
> That all Federal bank supervisory activities be combined in one, preferably the Federal Reserve Board; the Federal Deposit Insurance Corporation, however, to be continued as a separate insuring body. (Appendix N, pp. 116-117)
>
> That the consolidated supervisory staff draw personnel from all three existing agencies, the consolidation to be jointly supervised by representatives of the three agencies concerned, i.e., the Comptroller, the Board, and the FDIC. (Appendix N, p. 117)
>
> That, in any event, the Board of Directors of the Federal Deposit Insurance Corporation include the Chairman or Vice Chairman of the Federal Reserve Board. (Appendix N, p. 117)
>
> That all insured banks be made subject to the reserve requirements applicable to member banks. (Appendix N, p. 118)

That the limitation of the term of the Chairman of the Federal Reserve Board to four years be eliminated and that he serve at the will of the President. (Appendix N, p. 112)

The first of the foregoing also appears in about the same form in the task force report on Lending Agencies. (Appendix R, pp. XII-XIII) It is the only task force recommendation on the Federal Reserve Board that is repeated by the Commission among its own formal recommendations. As stated in the report on the Treasury, it reads as follows:

That "a National Monetary and Credit Council of domestic financial agencies" be formed; this council to be "under the chairmanship of the Secretary of the Treasury, with representatives appointed by the President from such agencies as the Federal Reserve Board, the Housing and Home Finance Agency, the Farm Credit Administration, the Reconstruction Finance Corporation, and others as the President may determine". (p. 20; Federal Business Enterprises, p. 48; Concluding Report, p. 61)

II.

Recommendations affecting the Federal Reserve Board also appear in other task force reports. That on the Treasury recommends:

That the Assistant Secretary of the Treasury in charge of Banking and International Finance (or the Secretary or Under Secretary) be a member of the Federal Reserve Board. (Appendix F, pp. 3, 22, 28)

The task force report on the Securities and Exchange Commission recommends:

That power to determine margin requirements be vested in that Commission, the Federal Reserve Board, however, to have power to veto any change proposed by the Commission or to require a change to be made where the general credit structure of the country was materially involved. (Appendix N, p. 150)

The task force report on Lending Agencies makes the following recommendations that condern the Federal Reserve directly (the first of these has already been mentioned):

> That the NAC be rechristened "National Monetary and Credit Council", that its membership be enlarged, that the Chairman of the Federal Reserve Board be made vice-chairman of the Council, and that it be given coordinating responsibilities in the domestic field comparable to those it has now in the foreign field. (Appendix R, p. XI-XIII)
>
> That the Reconstruction Finance Corporation be discontinued, that the Reserve Banks' authority to make direct loans to business be discontinued, and that the Reserve Banks be authorized to guarantee loans. (Appendix R, p. XIII, p. 27)
>
> That the Federal Deposit Insurance Corporation be placed under the supervision of the Federal Reserve Board as a mutual insurance trust. (Appendix R, p. XIV)
>
> That liquidation of Government investments and loans be accelerated and that the Federal Reserve Banks be employed as the liquidating agents. (Appendix R, p. XIV, pp. 59-60)

The foregoing recommendation that the Federal Deposit Insurance Corporation be placed under the Federal Reserve Board is supported in detail in the same report (Appendix R, pp. 52-54, 107-108); and in that on the Regulatory Commissions there is a closely related discussion of the "crazy quilt" of supervisory authority, with the conclusion that the Federal Reserve Board is the most promising center about which to consolidate that authority. (Appendix N, pp. 115-118)

On Government lending the task force expresses the following view:

> "Except as the temporary response to an emergency, we think the Federal Government should abandon the concept that direct lending to individuals and business concerns is a Government function." (Appendix R, p. 20, p. X, pp. 4-14)

Accordingly, the task force on Lending Agencies also recommended that home mortgage and farm lending be curtailed or discontinued and recommends that all Government lending agencies be owned by the Treasury. (Appendix R, pp. XIII-XIV) Incidentally to its disapproval of Government lending, the task force has much fault to find with the management and in particular the accounting methods of the RFC and other lending agencies. The recommendation is made that such lending agencies as may be maintained be incorporated and managed by part-time independent boards of directors and that their supervisory agencies be made independent boards. (Appendix R, p. 64) With curtailment or discontinuance of lending activities and with continuance of FDIC as an insurance trust, the relevant activities of the Government would be largely limited to guaranty. The Federal Reserve Banks would be the liquidating agents in the dissolution of present Government loan agencies, and their function as guarantors of bank loans to business enterprises would be enlarged. (Appendix R, pp. 27, 59-60)

The Commission itself seems to agree in principle with the task force about Government lending but is less emphatic and, in particular, would restrict RFC to guaranty rather than abolish it wholly. (Federal Business Enterprises, pp. 23-24, 43-44) It also recommends that creation of "a system of national mortgage discount banks" be considered. (Concluding Report, p. 72)

The task force report on Statistical Agencies recommended measures for improvement of the present statistical work of the Government, with no suggestion, however, of any basic change affecting the Board. It is specifically recommended:

> That the Board, as one of six special-purpose agencies, "be responsible for research and analysis in monetary economics, with focal responsibility for statistics in the broad field of money, credit and banking". (Appendix D, p. 15)
>
> That "the collection and processing of all statistics entering into a unified national system of statistical intelligence be subject to the control of a central statistical office", which should "be responsible for the adequacy of the system as a whole, for its economical operation, for coordinating the activities of statistical agencies", etc. (Appendix D, p. 12)

Although the Commission's formal recommendations to Congress include none which deal with the Board specifically, they do include several that would affect the Board in common with other regulatory bodies. The Commission believes that the regulatory commissions have a proper place in the machinery of Government but that their role as originally conceived has not bee adequately fulfilled. Its recommendations in the report on Regulatory Commissions are:

> That in each regulatory commission all administrative responsibility be vested in the chairman. (p. 5)
>
> That salaries of all commissioners and board members be substantially raised. (p. 9)
>
> That the salaries of staff members be increased so as to attract persons of high professional competence. (p. 9)
>
> That the statutes be amended so as to permit regulatory commissions to delegate routine, preliminary and less important work to members of their staffs. (p. 10)

That the Administrative Management Division of the Office of the Budget with the aid of carefully selected legal consultants suggest ways and means to improve and reduce the cost of disposing of business before administrative agencies. (p. 10)

That all regulatory commissions have bipartisan membership. (p. 16)

All but the last of the foregoing recommendations by the Commission appear at greater length in the general recommendations of the task force respecting Regulatory Commissions. (Appendix N, pp. VIII-IX; pp. 12-16)

III.

Both in the task force reports and in those of the Commission itself the tone in which the Board is mentioned is favorable, and there is clear understanding of Federal Reserve functions; except that in the task force report on Foreign Affairs it is stated erroneously that the "Board charters and supervises foreign banking corporations in the United States". (Appendix H, p. 59) It is implied frequently that the Board should be given more rather than less responsibility. The task force report on the Board aims at increasing the Board's weight and effectiveness in Governmental policy by making the Chairman "a more intimate member of the President's official family", by reducing the Board's size, and by giving it all authority over open market policy. (Appendix N, pp. 112, 113, 114) The Treasury task force report mentions the Board in discussing debt management, observing that the Treasury should have the full cooperation of "the Federal Reserve System in the management of the debt"; and it intends to promote this by having the Secretary, Under Secretary, or Assistant Secretary a member of the Board "and by having the Secretary and the

Under Secretary attend Board meetings whenever desirable". (Appendix F, p. 28; Appendix N, p. 27) In its report on the Lending Agencies, the task force supported its recommendation of enlarged loan guaranty powers for the Federal Reserve Banks by the argument that "it would place an additional credit regulating device at the disposal of the System". (Appendix R, p. 27)

An indication of intent to leave the Board's status what it is occurs in the task force recommendation that the Farm Credit Administration be made an independent board "organized in substantially the same manner as the Federal Reserve Board is organized"; and that the activities of the lending agencies that are to be retained be financed entirely by assessments or contributions, "much as the expenses of the Board of Governors are paid by Federal Reserve and member banks." (Appendix R, pp. 46, 65)

That the Commission's attitude toward the Board is favorable is also borne out by remarks of Dr. Arthur S. Flemming, a member of the Commission, at a meeting of Federal Reserve Relations Committee of the Philadelphia Reserve Bank, April 29, 1949. When asked what was to be done with the Federal Reserve System in the proposed reorganization, Dr. Flemming replied: "We left that alone." (Philadelphia Proceedings, p. 31) He later said: (p. 38)

> "Now, I am in complete agreement with President Williams in what he has said about the Federal Reserve System, and I think every member of the Commission was. I don't know of a single member of the Commission that even discussed the point of view that was reflected in the work of the staff member. We didn't take five minutes on it in the Commission because apparently we were all in agreement on the fact that it should be left where it is."

(Note: Mr. Flemming, prior to the above, discussed "the matter of the Treasury and the Federal Reserve System"; but what he said was off the record.)

But though, on the whole, the intent seems to be to leave the Board alone, at least so far as its functions are concerned, there are many implications that its status might be affected by some of the Commission's more sweeping proposals. For instance, although the fact is mentioned that the Board's costs "are not a charge on the tax payers" (Regulatory Commissions, Note 2, p. 1; Note 9, p. 17; Appendix N, Note 3, p.11) and although there is no suggestion that this be changed, yet it is recommended elsewhere that "all agencies" be under uniform control as to budgeting, accounting, statistical work, personnel, and general services. (Appendix D, p. 12-18; Appendix N, pp. IX, 15, 35; Regulatory Commissions, p. 11; Budgeting and Accounting, pp. 31, 39; Treasury Dept., p. 4; Concluding Report, p. 54) Again, it is recommended that the FDIC be placed under the supervision of the Federal Reserve Board, but also that "it be subjected to the fullest degree of control provided by the Government Corporation Control Act", and that its budget be presented to Congress annually for such recommendations as the Appropriation Committees may wish to make. (Appendix R, p. XIV, p. 54, p. 71). Further, the Commission recommends (Budgeting and Accounting, p. 30) "that the President be given the means and authority to supervise all publications of the executive branch and that he delegate this authority to a responsible official in the Office of the Budget". This might alter greatly the Board's present control over its publications.

IV.

The Commission's work also contains evidences of differences of opinion which it is impossible to appraise, particularly with respect to repercussions that might affect the Board. Contrary to the task force recommendation that RFC be discontinued and the Federal Reserve Banks be given power to guarantee loans, the Commission "believes it preferable" that the RFC be reorganized to guarantee loans by commercial banks and recommends that Congress "review" the power to make direct loans and to place restrictions on such loans in order to insure maximum use of the normal channels of credit in nonemergency periods. (Federal Business Enterprises, pp. 43-44, 24) It also recommends that the FDIC be placed under the Treasury, with RFC and the Export-Import Bank, and not under the Federal Reserve Board as recommended by the task force. (Concluding Report, p. 61) Contrary to other task force recommendations, the Commission recommends continuance of farm and home mortgages and other types of direct lending, but would concentrate the lending powers in fewer Government corporations, and set up a national system of Mortgage Discount Banks. (Federal Business Enterprises, pp. 36, 45; Concluding Report, p. 72)

Furthermore, there is considerable dissent among the Commissioners themselves. In their report on the Treasury there are dissents respecting the National Monetary and Credit Council and transfer to the Treasury of the FDIC, the Export-Import Bank, and the RFC (Treasury Dept., pp. 25-33); but these are minor compared to the dissents in the report on Federal Business Enterprises where a large minority of the members are at variance not only with the majority but with the task force and with each other. The dissents fill a third as many pages as the recommendations themselves. The principal dissent is that the approach followed by the majority is "wholly wrong" in treating together two-score agencies which happen to use lending and related techniques but for entirely different purposes, the contention of the dissenters being in effect that Government lending is not a proper object of uniform regulation since it is merely instrumental to particular programs, housing, for example. (Federal Business Enterprises, p. 91 ff., p. 99 ff.) (It is obvious that this dissent seriously conflicts with the principle of central banking.)

On the whole, the Commission and the task forces seem undecided with respect to the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, and the Export-Import Bank. The Commission itself recommends that supervision of the operation of the RFC, the FDIC, and the Export-Import Bank be vested in the Secretary of the Treasury; but half of the Commission, including Vice Chairman Acheson, dissent one way or another. (Treasury Department, pp. 10-12)

The task forces' views about the banking and credit agencies also vary. The Federal Reserve task force, as stated, would put "all Federal bank supervisory activities" under the Board because examination policy should conform to stabilization policies; but whatever the allocation of supervisory responsibility, they would make the Chairman or Vice Chairman of the Federal Reserve Board a director of the FDIC, because of the intimate relation between credit policy and bank liquidity. (Appendix N, p. 117) But the task force study on the Treasury recommends that the Treasury be "a real department of finance" and responsible, among other things, for "the supervision of programs relating to banking and international finance". It suggests that an Assistant Secretary in Charge of Banking and International Finance be a member of the Federal Reserve Board and that he have general supervision of the Comptroller's Office, "if it is to be continued in the Treasury". (Appendix F, pp. 2-3) It also says: "The Comptroller of the Currency, who is engaged principally in examining the national banks of the country, more properly belongs under the Federal Reserve Board than in the Treasury Department." But, it says further that the national banks "have become accustomed over the years to deal directly with the Treasury through the Comptroller of the Currency and are understood to prefer that arrangement", that "there would be little or no economy in moving the office elsewhere", and that "if" it is continued in the Treasury it should be under the Assistant Secretary in Charge of Banking and International Finance (who is to be a member of the Federal Reserve Board). (Appendix F, pp. 18-19, 22) This task force study on the Treasury considers transfer of the Comptroller's office mainly as a question of economy, with little or no account of other bank supervisory activities, whereas the task force study on the Board relates all such activities to each other and to central bank policy.

V.

Besides the foregoing recommendations and suggestions, formal and informal, that bear on the Federal Reserve Board either explicitly or implicitly, the Commission notes a number of faults common to the regulatory commissions in general, which, of course, include the Board. These faults are as follows:

> Appointments to membership are sometimes below desirable standards because of the inadequate salaries offered, or the failure of the Executive to appreciate the importance of the positions. (Regulatory Commissions, p. 3)
>
> Purely executive duties—those that can be performed far better by a single administrative official—have been imposed upon these commissions with the result that these duties have sometimes been performed badly. The necessity for performing them has interfered with the performance of the strictly regulatory functions of the commissions. (Regulatory Commissions, pp. 3-4)
>
> The quantity of work in the regulatory field at the top level has been so great that the commissions have often neglected their promotional and planning functions. (Regulatory Commissions, p. 4)
>
> Sufficient delegation to the staff has not occurred, due to legislative restrictions as well as to poor internal organization. (Regulatory Commissions, p. 4)
>
> Administrative direction has not developed within the commissions. Their chairmen are too frequently merely presiding officers at commission meetings. No one has been responsible for planning and guiding the general program of commission activity. (Regulatory Commissions, p. 4)
>
> Tenure of commission members is not uniform. During their terms of office, some can be removed by the President only for specified causes; others, however, can be removed at any time for any cause. (Regulatory Commissions, p. 4)
>
> Unnecessary red tape has crept into their procedures, causing useless delay and expense. (Regulatory Commissions, p. 4)

> Coordination between these commissions and the general program of the executive departments is often loose and casual and sometimes nonexistent. (Regulatory Commissions, p. 4)

In addition to the foregoing general criticisms, it is pointed out that membership on the National Labor Relations Board and on the Federal Reserve Board is not required to be bipartisan as is the case with other similar bodies. (Regulatory Commissions, p. 3) This condition would be changed by one of the recommendations, already stated, that all regulatory commissions have bipartisan membership.

The task force report on Regulatory Commissions (Appendix N) discusses the chairmanship and membership of commissions in general, including by implication the Federal Reserve Board. (pp. 31-35)

VI.

There are in all 19 Commission reports and 18 task force studies, the latter issued as appendices. The reports and studies cited in the foregoing review are as follows:

Commission Reports

General Management of the Executive Branch
Regulatory Commissions
Treasury Department
Federal Business Enterprises
Budgeting and Accounting
Concluding Report

Task Force Studies

Appendix D, Statistical Agencies
Appendix F, Fiscal, Budgeting and Accounting Activities
Appendix H, Foreign Affairs
Appendix N, Regulatory Commissions
Appendix R, Lending Agencies

Other reports and studies which developments might give a bearing on the position of the Board in Governmental organization are the following:

Personnel Management
Office of General Services

Appendix A, Federal Personnel
Appendix B, Federal Supply System
Appendix C, Records Management
Appendix E, Departmental Management