

September 23, 1949.

Honorable John L. McClellan, Chairman,
Committee on Expenditures in the Executive Departments,
United States Senate,
Washington 25, D. C.

Dear Senator McClellan:

This letter is in response to yours of June 18, 1949, requesting the views of the Board concerning the provisions contained in S. 2073 which affect the Federal Reserve System. The bill would make certain changes in laws applicable to regulatory agencies of the Government so as to effectuate the recommendations regarding regulatory agencies made by the Commission on Organization of the Executive Branch of the Government. The Board of Governors of the Federal Reserve System would be affected in only two respects: (1) in the future, appointments to fill vacancies in the membership of the Board would be made so that as soon as possible not more than four members of the Board would be members of the same political party, and (2) functions of the Board with respect to its internal management, its relations with Congress, and the execution of its policies would be performed on behalf of the Board by the Chairman and he would have exclusive and final authority on behalf of the Board in respect to such functions.

As you know, suggestions have been made recently for the establishment of a monetary commission to study what changes are necessary or desirable in the banking and monetary system of the United States. The Board has expressed itself as being in favor of the creation of such a commission, and in a statement which I made recently on behalf of the Board before a subcommittee of the Senate Banking and Currency Committee I included the following with reference to a review by Congress of the authority and responsibility of the Federal Reserve System:

"We in the Federal Reserve System are naturally concerned over the areas of controversy that surround the System's functioning and responsibilities as a central

banking, monetary, regulatory, and supervisory authority. We trust that Congress will review its delegation of authority and responsibility to the System to be sure that they are commensurate with each other and with the objectives established by Congress. Such a review would include consideration: (1) of the System's open-market powers and their relation to Federal financing and the administration of the public debt; (2) of the use of selective credit controls such as those over security loans and consumer installment loans and of the proper sphere for the application of such types of control; (3) of the distribution of regulatory and supervisory power among the various Government agencies; (4) of the need for some mechanism of policy coordination on the domestic financial front as we have available through the N.A.C. on the international financial front; (5) of the objectives of central banking and supervisory policies; and (6) of the relation of the Federal Reserve System as a central banking organization to the banks of the nation, both member and nonmember."

The Board feels that such an overall study by a national monetary commission might well include consideration of the subject matter treated by S. 2073, and that this would be the most desirable way to approach the problem.

Sincerely,

Thomas B. McCabe,
Chairman.