WHY FINAL AUTHORITY OVER OPEN-MARKET OPERATIONS

SHOULD BE VESTED SOLELY IN THE FEDERAL RESERVE BOARD.

Both section 205 of the bill as introduced and the alternative suggested by the bankers (that final authority over open-market operations be vested in an open-market committee consisting of the Federal Reserve Board with its membership reduced to five members and four governors of Federal reserve banks selected by the twelve Federal reserve banks) would, in substance, create a new board to which would be transferred the most important functions of the present Federal Reserve Board. Moreover, under either proposal, only one less than half of the members of the Open Market Committee would consist of representatives of the banks selected by the boards of directors of the Federal reserve banks, two-thirds of whom are elected by private bankers.

Such an arrangement is directly in conflict with one of the fundamental principles of the Federal Reserve Act - a principle contributed to the Act by President Wilson himself - the principle that the Federal Reserve Board should be independent of the bankers and should not include representatives of the bankers. The origin of and reasons for this principle are clearly shown in Senator Glass' book "An Adventure in Constructive Finance".

That the Federal Reserve Board, created "as a capstone" to the Federal Reserve System, was suggested by President Wilson in the

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first instance is shown by the following passage on pages 81 and 82:

> "December 26, 1912, was a desperately cold day. The snow at Princeton was two feet deep. Dr. Willis, the committee expert, had accompanied the chairman, prepared to answer or discuss any purely technical question that might be projected. I had made a written divisional memorandum of the bill I desired to outline to Governor Wilson. The latter had a severe cold and was propped up on pillows in bed. He had cancelled every other engagement for the day, and at once it was suggested that he let us come another time when he might be in better trim; but he insisted on proceeding with the business, so intent was he on a speedy and sweeping currency reform. For two hours the situation was reviewed and the chairman's memorandum dissected. Toward the end, Mr. Wilson announced it as his judgment that we were 'far on the right track'; but offered quite a few suggestions, the most notable being one that resulted in the establishment of an altruistic Federal Reserve Board at Washington to supervise the proposed system. We had committed this function to the Comptroller of the Currency, already tsaristic head of the national banking system of the country. Mr. Wilson laughingly said he was for 'a plenty of centralization, but not for too much'. Therefore, he asked that a separate central board provision be drafted, to be used or not, as might subsequently be determined, 'as a capstone' to the system which had been outlined to him."

As related in Senator Glass' book, the bankers made a desperate fight to have representatives selected or at least nominated by them included in the membership of the Federal Reserve Board. How this proposal was defeated by President Wilson and the conclusive reasons for such action are shown in the following passage on pages 112 to 116:

> "It was at this point that the President had us come to the White House for a conference concerning that feature of the bill that gave the banks minority representation on the Federal Reserve Board. I was very definitely committed

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to giving the banks some voice. Senator Owen, of the Senate committee, had sided with Mr. Bryan in opposition. At the White House conference McAdoo agreed at first with me; but later in the evening he proposed a compromise. The President decided against banking representation. This was one of the crucial questions the President had to determine. It was evident it might involve the failure of legislation by embittering the bankers should they be entirely excluded. If they should be included, Bryan and his following might revolt. I had urged the 'essential injustice and political inexpediency' of denying the banks minority representation. The President was not bothered about the political phase; but he was willing to discuss the justice of the thing. So convinced was I that the President was wrong in his conclusion that I sent him this note; which is reproduced here to indicate that the President was not easily persuaded nor the chairman of the committee entirely complaisant:

'At the risk of being regarded pertinacious I am going to ask if you will not consider the advisability of modifying somewhat your view of bank representation on the proposed Federal Reserve Board. The matter has given me much concern, and more than ever I am convinced that it will be a grave mistake to alter so radically the feature of the bill indicated. Last night, when I came back to my hotel, I found Mr. Bulkley waiting, and he sat with me until past one o'clock this morning. Knowing that he was so earnestly for a government note issue and for government control, I imagined he would be delighted with the suggested alteration. I told him of the change without first indicating my own view; and, much to my astonishment and gratification, he instantly and vigorously protested, saying he had regarded the extent to which we had already put the government in control, together with the tremendous power of the Board, as the real weakness of the bill. He also said we could not escape the charge of exposing the banking business of the country to political control. As indicated to you last night, Mr. Bulkley is a strong man of the committee with whom we must reckon; hence his view of this proposed alteration fully confirms my belief that it would prove an almost irretrievable mistake to leave the banks without representation on the central board. You will note that the bill requires the three members selected by the banks to sever all bank connections before qualifying. Might it

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not be well at least to take Mr. McAdoo's suggestion and have the President select these men from a list proposed by the banks? With high esteem, etc.'

The President was adamant; and, if there was ever a lapse, I soon was to revive the conviction that Mr. Wilson knew more about these matters than I did. As anticipated, when the bill was introduced in Congress, bankers raised an uproar about this provision. With scarcely suppressed satisfaction, I headed a delegation of them to the White House to convince the President he was wrong. Forgan and Wade, Sol Wexler and Perrin, Howe and other members of the Currency Commission of the American Bankers Association constituted the party. The first two, peremptory and arbitrary, used to having their own way, did not mince matters. They evidently were not awed by 'titled consequence', for they spoke with force and even bitterness. Sol Wexter and Perrin were suave and conciliatory. The President was courteous and contained. These great bankers, arbiters for years of the country's credits, were grouped about the President's desk in the Executive office adjoining the Cabinet room. I sat outside the circle, having already voiced my own dissent from the President's attitude. President Wilson faced the group across the desk; and as these men drove home what seemed to me good reason after good reason for banker representation on the central board, I actually experienced a sense of regret that I had a part in subjecting Mr. Wilson to such an ordeal. When they had ended their arguments Mr. Wilson, turning more particularly to Forgan and Wade, said quietly: 'Will one of you gentlemen tell me in what civilized country of the earth there are important government boards of control on which private interests are represented?' There was painful silence for the longest single moment I ever spent; and before it was broken Mr. Wilson further inquired: 'Which of you gentlemen thinks the railroads should select members of the Interstate Commerce Commission?' There could be no convincing reply to either question, so the discussion turned to other points of the currency bill; and, notwithstanding a desperate effort was made in the Senate to give the banks minority representation on the reserve board, the proposition did not prevail."

The present proposal to have control over open-market operations vested in a joint board consisting of members of the

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Federal Reserve Board and representatives of the Federal reserve banks elected by directors two-thirds of whom are elected by the member banks is merely an effort to revive the principle urged by bankers Forgan, Wade, Wexler, Perrin, Howe and others, and vigorously and convincingly denied and defeated by President Wilson.

The issue is: Will the money changers finally prevail after twenty-three years or will the present Congress and another great Democratic President keep the money changers out of the temple?