

Office Correspondence

FEDERAL RESERVE
BOARD

Date March 29, 1935

To Governor Eccles

Subject: Alternative for Open-Market Com-

From Mr. Wyatt, General Counsel.

mittee Provisions of Banking Act of 1935

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At the suggestion of Dr. Goldenweiser, I have prepared the attached preliminary draft of an alternative proposal for handling open-market operations, which contemplates that a committee of five governors shall have authority to initiate open-market policies and changes in discount rates and reserve requirements, subject to the approval of the Federal Reserve Board, and that the Federal Reserve Board shall have authority to prescribe open-market policies and make changes in discount rates and reserve requirements on its own initiative.

I believe this is the best solution of this problem which has been suggested.

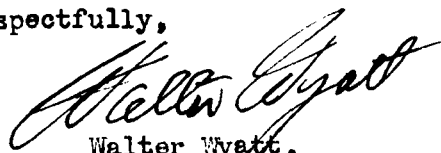
At Dr. Goldenweiser's suggestion, I have called the committee a "Monetary Policy Committee", although I do not think the name is appropriate for such a subordinate body.

Since this section covers the three principal methods of monetary control, I have also incorporated in it the statement of objectives which you suggested to the House Banking and Currency Committee. If this proposal is adopted, the amendment which adds the statement of objectives to the end of section 11 should be omitted.

This draft would repeal section 12A altogether and substitute for it a new section 14A, in order to place it in juxtaposition to section 14, which deals with the open-market powers of the Federal Reserve banks. At present, sections 12A and 14 are separated by approximately thirty pages of intervening text, and this has been found to be inconvenient and confusing.

I am sending copies of this draft to Messrs. Clayton, Goldenweiser, Morrill and Curry, with requests for their suggestions; and I would like to receive your suggestions, if you have time to consider the matter.

Respectfully,



Walter Wyatt,
General Counsel.

4-1-35

SUBSTITUTE FOR SECTION 205 OF H.R. 5357 AND S. 1715
(Page 44, Line 8, through Page 45, Line 17)

10 ✓

Sec. 205. Effective ninety days after the enactment of this Act, section 12A of the Federal Reserve Act, as amended, is repealed and the Federal Reserve Act, as amended, is amended by inserting therein, immediately after section 14 thereof, a new section reading as follows:

"Sec. 14A. (a) There is hereby created a Monetary Policy Committee (hereinafter referred to as the 'Committee'), which shall consist of five representatives of the Federal Reserve banks. The members of the Committee and an alternate to serve in the absence of each of them shall be elected annually by the governors of the twelve Federal Reserve banks in accordance with procedure prescribed by regulations of the Federal Reserve Board. Vacancies shall be filled in the same manner. The terms of the members of the Committee shall expire at the end of each calendar year, and a person elected to fill a vacancy shall serve for the remainder of the term of his predecessor. The Committee shall elect its own chairman. Meetings of the Committee shall be held from time to time upon the call of the chairman or upon the call of the Governor of the Federal Reserve Board. Meetings shall be called whenever requested by a majority of members of the Committee or by a majority of the members of the Federal Reserve Board.

"(b) The Committee shall from time to time consider, adopt and transmit to the Federal Reserve Board resolutions stating the policies which, in the judgment of the Committee, should be adopted

4-2-35

with respect to the open-market operations of the Federal Reserve System, changes in the rates of interest and discount to be charged by Federal Reserve banks and changes in the reserve balances required to be maintained by member banks. Such resolutions shall be subject to review, modification and determination by the Federal Reserve Board and, if approved by the Federal Reserve Board, shall become binding upon all of the Federal Reserve banks, subject to such modifications as may be ordered by the Federal Reserve Board. The Committee shall aid in the execution of open-market policies approved or prescribed from time to time by the Federal Reserve Board and shall perform such other duties relating thereto as the Federal Reserve Board may prescribe.

"(c) The Federal Reserve Board, upon its own initiative and upon the affirmative vote of not less than five of its appointive members, may from time to time, ~~on its own initiative~~, prescribe open-market policies for the Federal Reserve System and changes in the rates of interest and discount to be charged by Federal Reserve banks. Nothing in this section except subsection (e) shall affect in any manner the authority of the Federal Reserve Board under section 19 of this Act to increase or decrease the reserve balances required to be maintained by member banks.

13

"(d) Each Federal reserve bank shall purchase or sell obligations of the United States, bankers' acceptances, bills of exchange and other obligations of the kinds and maturities made eligible for purchase under the provisions of section 14 of this Act, to such extent and in such manner as may be required by the Federal Reserve Board in order to effectuate the open-market policies approved or prescribed by the Federal Reserve Board from time to time under the provisions of this section and each Federal Reserve bank shall cooperate fully, in every way, in making such policies effective. All transactions of Federal Reserve banks under authority of section 14 of this Act shall be subject to such regulations, limitations and restrictions as the Federal Reserve Board may prescribe.

"(e) It shall be the duty of the Federal Reserve Board and the Monetary Policy Committee to exercise such powers as they possess in such manner as to promote conditions conducive to business stability and to mitigate by their influence unstabilizing fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action and credit administration."