

April 2, 1935.

Governor Eccles

Alternative for Open-Market  
Committee Provisions of  
Banking Act of 1935.

Mr. Wyatt, General Counsel.

I respectfully submit herewith a revised draft of the alternative proposal for handling open-market operations, which I have prepared after considering the suggestions of Messrs. Goldenweiser, Merrill, Clayton and Currie. The principal changes are as follows:

1. One member of the Committee would come from the First, Second, or Third Federal Reserve district; one from the Fourth, Seventh, or Eighth district; one from the Fifth, Sixth, or Eleventh district; one from the Ninth, Tenth, or Twelfth district; and one from the country at large. This was suggested by Dr. Goldenweiser and is intended to prevent the Committee from consisting entirely of representatives of the Eastern banks. As an alternative, it has been suggested that the Committee consist of 12 members, each representing a Federal Reserve bank and elected by the directors of that bank.

2. The members of the Committee would be elected by the directors of the twelve Federal Reserve banks instead of by the Governors. This was suggested by Mr. Merrill and has the advantage of meeting the objection that the members of the Committee would be selected by persons whose appointments are subject to approval by the Federal Reserve Board.

3. Members would continue to serve until their successors are elected. This was suggested by Mr. Clayton.

4. The Committee would aid in the execution of open-market policies only to the extent and in the manner prescribed by the Board. This was suggested by Mr. Clayton.

5. The requirement of five affirmative votes of the appointive members in order for the Board to initiate an open-market policy has been eliminated, as all of us were opposed to it.

I believe that we have developed this about as far as we can without receiving your criticisms.

Respectfully,



Walter Wyatt,  
General Counsel.

WW:am

(Revised draft of April 2, 1935)

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

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 Effective ninety days after the enactment of this Act, section 12A of the Federal Reserve Act, as amended, is repealed and the Federal Reserve Act, as amended, is amended by inserting therein, immediately after section 14 thereof, a new section reading as follows: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 Federal Open Market Committee (hereinafter referred to as the 'Committee'), which shall consist of five representatives of the Federal Reserve banks, one from the First, Second or Third Federal Reserve District, one from the Fourth, Seventh or Eighth Federal Reserve District, one from the Fifth, Sixth or Eleventh Federal Reserve District, one from the Ninth, Tenth or Twelfth Federal Reserve District, and one from the country at large. The members of the Committee and an alternate to serve in the absence of each of them shall be nominated and elected annually by the directors 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 and their alternates shall expire at the end of each calendar year; but each member and alternate whose term expires shall continue to serve until his successor is elected. 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 in the District of Columbia 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 the Federal Reserve Board or by a majority of members of the Committee and may be called at any time by the Governor 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 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. To the extent and in the manner prescribed by the Federal Reserve Board, the Committee shall aid in the execution of open-market policies and shall perform such other duties relating thereto as the Federal Reserve Board may prescribe.

"(c) The Federal Reserve Board, upon its own initiative, may from time to time prescribe open-market policies for the Federal Reserve System. Nothing in this section, except subsection (e), shall affect in any manner the authority of the Federal Reserve Board to increase or decrease the reserve balances required to be maintained by member banks or to fix the rates of interest and discount to be charged by Federal Reserve banks.

"(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 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."

WV :mw