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Governor Eccles

April 1, 1935.

From Lauchlin Currie

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

I think that Mr. Wyatt's proposed alternative is an improvement on both the Committee as it is now constituted and the proposed change in the bill. It is not as desirable as the proposal to have a Committee of Governors act in an advisory capacity.

I strongly disapprove of the requirement that the Federal Reserve Board cannot take action except upon the affirmative vote of not less than five of the appointive members. This would mean in practice that two appointive members could play an undue role in determining open-market policy, since whatever is done in connection with open-market operations is a policy. Doing nothing is just as much of a policy as doing something. If a suggested change in policy were blocked by two appointive members, the majority would probably summon the Governors' Committee and attempt to get action through them. Anything approved by the Governors could be passed by the board by a simple majority.

Another objection I have to the proposal is that in practice it will probably mean that the Governors' Committee will be summoned and asked to act on all questions relating to monetary policy. Minority members on the Board would suggest it and the Committee could make out a strong case for being constantly in touch with developments in monetary policy if it is to share in its formulation. If this should happen it would mean again an unwieldy board of eleven or thirteen members. The more people to be consulted the more possibility there is of inertia.

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