

W Clayton

April 1, 1955.

Memorandum to Mr. Wyatt:

I have your memorandum of March 29 and the proposed alternative for open market committee provisions of the Banking Act of 1955.

I agree with you in the feeling that the designation "Monetary Policy Committee" would not be appropriate.

While the provision that members of the committee and their alternates shall be elected annually by the governors of the Federal reserve banks follows previous forms, I am inclined to think that a modification would tend in the direction of meeting certain criticisms. In other words, if it were provided that they "shall be elected annually by the boards of directors of the twelve Federal reserve banks" etc., it would help to meet the objection that the members of the committee are selected by persons whose own appointments are subject to the approval of the Federal Reserve Board.

In the last sentence of paragraph (a) I would say "meetings shall be called whenever requested by a majority of members of the committee or by the Federal Reserve Board", thus omitting the requirement that the action of the Federal Reserve Board be by a majority of its members.

Paragraph (c) would require the affirmative vote of not less than five of the appointed members of the Board in order that the Board might act upon its own initiative.

Such a requirement would be an indirect way of getting at the situation with respect to the existence of ex officio members on the Board, as their votes would not count in the most important functions of the Board. The introduction in the first sentence of paragraph (c) of a reference to discount rates might raise a question as to whether it is considered that the Board's existing power of determination as to discount rates includes the power of initiative.

The alternative has possibilities which it seems to me it would be desirable to avoid. We have had occasions when we have not had five appointed members on the Board and during such periods the Board would be deprived of an initiative. Such periods might occur in cases of death, resignation or expiration of term, when the President did not act promptly in filling a vacancy, or, even though he acted promptly, the Senate delayed confirmations or rejected nominations. If one of the appointed members of the Board were to take a vacation trip in Europe and another were to become ill or temporarily disabled or otherwise unavailable, and as a result there should be left only four appointed members, the Board could not act. Two appointed members could block affirmative action, which would mean inaction, unless the

governors committee could be induced to act, in which case a majority of the board members regardless of whether they were appointed or ex-officio members could then act on the governors' recommendations. Other objections can be visualized.

I prefer that powers intrusted to the Board be capable of being exercised by a majority vote without discrimination among those who constitute the membership.

In the last paragraph I would strike out the words "monetary policy" in the second line.

*CW*