

Office Correspondence

FEDERAL RESERVE
BOARD

Date May 27, 1935

To Governor Eccles

Subject: Amendments to the Banking Act of

from Mr. Wyatt, General Counsel.

1935 recommended by BRECHD MILLER'S SECTION

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There are attached for your information copies of the amendments to the Banking Act of 1935 recommended by Dr. Miller during his testimony before the subcommittee of the Senate Committee on Banking and Currency on Friday, May 24, and Monday, May 27, 1935.

In addition, Dr. Miller recommended:

(1) That the Board be made as independent as possible by the removal of the ex officio members from the Board and by stating in the law that no member of the Board should be removed from office during his term of office.

(2) That the pension provisions of the bill be enacted.

(3) That the Board be reconstituted as a "Board of Governors of the Federal Reserve System" and be given the power to elect its own Chairman; and

(4) That ultimately all powers of Federal supervision over banking be consolidated in one body.

During the course of Dr. Miller's testimony, Senator McAdoo expressed himself in favor of having the members of the Board appointed for life and forbidding the Federal Reserve banks to use the title of "Governor" for any of their officers. He also seemed to favor giving the Board final authority over open market operations and consolidating in one body all Federal authority with respect to the supervision of banking.

To meet Senator Glass' objection to forcing Federal Reserve banks to participate in open market operations, Senator McAdoo suggested that, instead of giving each Federal Reserve bank the right to refuse to participate in open market operations, the bill might give the Board the authority to excuse any Federal Reserve bank from participating in open market operations.

Senator Bulkley took issue with Dr. Miller's objections to the eligibility provisions of the bill and seemed to favor those provisions.

Respectfully,

Walter Wyatt
Walter Wyatt,
General Counsel.

Attachments.

AMENDMENT TO BANKING ACT OF 1935 RECOMMENDED BY DR. MILLER TO
SUBCOMMITTEE OF SENATE COMMITTEE ON BANKING AND CURRENCY.

SUGGESTED AMENDMENT TO H.R. 5357 AND S. 1715.

Strike out everything commencing with line 19 on page 33, through and including line 22 on page 40, and substitute the following:

"Class C directors shall be appointed by the Federal Reserve Board and one of them shall be designated by the Federal Reserve Board as Chairman of the Board of Directors. The Chairman shall be the highest official of the bank, shall preside at all meetings of the Board of Directors at which he is present, and may, at his discretion, exercise supervision over the bank and its officers. He shall be a man of outstanding and tested character and experience and shall be eminently qualified to give effective representation to the point of view of the public interest in all matters pertaining to the policies and operations of the Federal Reserve bank, and shall consult with and be consulted by the Federal Reserve Board from time to time respecting such matters. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal Reserve bank to which he is designated. One of the directors of Class C shall be appointed by the Federal Reserve Board as Deputy Chairman and shall preside at meetings of the Board of Directors in the absence of the Chairman. In the absence of both the Chairman and the Deputy Chairman, the third Class C director shall preside at meetings of the Board of Directors.

"At each Federal Reserve bank there shall be a Governor, who shall be the active executive officer of the bank. The Governor shall be appointed by the Board of Directors. He may be appointed by the Federal Reserve Board as one of the Class C directors of the bank; but, in such event, his term of office as Class C director shall terminate when he ceases to be Governor of the bank. For each Federal Reserve bank there shall be appointed annually, in the same manner as the Governor, a Vice Governor, who shall, in the absence or disability of the Governor or during any vacancy in the office of Governor, serve as the active executive officer of the bank. Whenever a vacancy shall occur in the office of either the Governor or Vice Governor of a Federal Reserve bank, it shall be filled in the manner provided for original appointments; and the person so appointed shall hold office until the expiration of the term of his predecessor.

"Effective ninety days after the enactment of the Act containing this amendment, the office of Federal Reserve agent shall be abolished and the terms of office of the present incumbents of the position as Class C directors and Chairmen of the Boards of Directors shall terminate; but they shall be eligible for reappointment, in the discretion of the Federal Reserve Board, as Class C directors and Chairmen. Hereafter

the duties prescribed by law for the Federal Reserve agent shall be performed by such person or persons as the Federal Reserve Board shall designate.

"No Class A director shall serve continuously for more than one full term of three years, except that a Class A director elected to fill an unexpired term may be reelected and may serve for the next full term. No Class B director shall serve continuously for more than two consecutive full terms of three years each, except that a Class B director elected to fill an unexpired term may be elected to serve the next two full terms of three years each."

AMENDMENT TO BANKING ACT OF 1935 RECOMMENDED BY DR. MILLER
TO SUBCOMMITTEE OF SENATE COMMITTEE ON BANKING AND CURRENCY. 10

SUBSTITUTE FOR SECTION 205 OF H. R. 7617 AND S. 1715.

Sec.205. Section 12A of the Federal Reserve Act, as amended, is amended by striking out subsections (c) and (d) thereof and inserting in lieu thereof the following:

"(c) The time, character, and volume of all open market operations of the Federal Reserve System under section 14 of this Act shall be governed with a view to supporting and reinforcing the credit and discount policies of the Federal Reserve System, when this may be necessary, in order to aid in the establishment and maintenance of sound banking, credit, financial and economic conditions.

"(d) In accordance with procedure prescribed by regulations of the Federal Reserve Board, the Committee shall from time to time consider, adopt and transmit to the Federal Reserve Board resolutions recommending the policies which, in the judgment of the Committee, should be adopted with respect to the open market operations of the Federal Reserve System and stating the reasons for such recommendations. 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 Federal Reserve Board, upon its own initiative

and upon the affirmative vote of not less than four of its appointive members, may from time to time, on its own initiative, prescribe open market policies for the Federal Reserve System.

"(e) 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 under the provisions of this section and each Federal Reserve bank shall cooperate fully, in every way, in making such policies effective.

"(f) All actions taken by the Federal Reserve Board with respect to open market policies shall be clearly recorded, together with a statement of the reasons therefor; and, if any member of the Board vote against such actions, such vote, together with any reasons therefor, shall also be recorded. In its annual report for each year the Federal Reserve Board shall publish in full all resolutions recommending open market policies and stating the reasons therefor which were adopted by the Federal Open Market Committee during the year covered by such annual report, together with the full text of the contemporaneous record of all actions taken by the Board with respect to open market operations and the reasons therefor and all dissenting votes and the reasons therefor."

2-6-11

PROPOSED SUBSTITUTE FOR SECTION 206 of S . 1715 and H.R. 7617. 10

Sec. 206. Sections 10(a) and 10(b) of the Federal Reserve Act, as amended, are hereby repealed and section 13 of the Federal Reserve Act, as amended, is amended by adding at the end thereof a new paragraph reading as follows:

"Notwithstanding any other provision of law, when it deems it in the public interest and by an affirmative vote of not less than ____ of its members, the Federal Reserve Board, may authorize any Federal Reserve bank, for limited periods to be prescribed by the Board but which may be extended by the Board from time to time, to make advances to member banks which have no further eligible and acceptable assets available to enable them to obtain adequate credit accommodations through rediscounting at the Federal Reserve bank or by any other method provided by this Act. Such advances may be made on the promissory notes of such member banks secured to the satisfaction of the Federal Reserve bank and shall be subject to such regulations and shall bear such rates of interest as may be prescribed from time to time by the Federal Reserve Board."

AMENDMENT TO BANKING ACT OF 1935 RECOMMENDED BY DR. MILLER
TO SUBCOMMITTEE OF SENATE COMMITTEE ON BANKING AND CURRENCY.

PROPOSED SUBSTITUTE FOR SECTION 208 OF S.1715 and H.R.7617.

Sec. 208. The second paragraph of section 13 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal Reserve bank may make application to the local Federal Reserve agent for such amount of the Federal Reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates: Provided, however, That the Federal Reserve Board, should it deem it necessary to safeguard the public interest, upon the affirmative vote of not less than ____ of its appointive members, may authorize the Federal Reserve banks to offer, and the Federal Reserve agents to accept, as such collateral security, direct obligations of the United States. Such authorization shall be granted only in exceptional and exigent circumstances and only for limited periods but may be extended from time to time upon the affirmative vote of not less than ____ appointive members of the

Federal Reserve Board. Upon the expiration of such authorization, such obligations of the United States shall be retired as security for Federal Reserve notes. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. The Federal Reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it."

AMENDMENT TO BANKING ACT OF 1935 RECOMMENDED BY DR. MILLER
TO SUBCOMMITTEE OF SENATE COMMITTEE ON BANKING AND CURRENCY.

10

FEDERAL ADVISORY COMMITTEE

For the purpose of aiding in the establishment and maintenance of more stable economic conditions in the United States, there is hereby created a Federal Advisory Committee (hereinafter referred to in this section as "the Committee"), which shall consist of five members appointed by the President of the United States by and with the advice and consent of the Senate. The members of the Committee shall be chosen with particular regard for their qualifications for the discharge of the duties imposed upon them by this Act. Not more than two members of the Federal Reserve Board may serve at the same time as members of the Committee.

For the purpose of assisting the President in the selection of the members of the Committee, two lists of persons eminently qualified for membership thereon shall be prepared and submitted to the Federal Reserve Board on or before October 1, 1935. Each list shall include the names of not less than five nor more than fifteen persons and shall be accompanied by a memorandum stating the qualifications of each such person. One list shall be prepared and submitted by the American Economic Association, and one by the twelve Federal Reserve banks, in accordance with procedure to be prescribed by the Federal Reserve Board.

After careful consideration and such investigation as it deems necessary, the Federal Reserve Board shall transmit such lists to the President, shall advise the President which persons among those named in such lists are in the Board's judgment best qualified for membership

2-10-35

on the Committee, and shall add thereto any nominations of its own selection. In selecting the members of the Committee, the President shall give due consideration to such lists, the additional nominations submitted by the Federal Reserve Board, and the Board's views thereon; but he shall not be required to select the members of the Committee from such lists or nominees.

Similar lists shall be prepared and submitted to the President in like manner and with like effect whenever any vacancy occurs or is about to occur in the membership of the Committee.

Of the five original members of the Committee, one shall be appointed for a term of two years, one for a term of four years, one for a term of six years, one for a term of eight years, and one for a term of ten years and their successors shall be appointed for terms of ten years each, except that a person appointed to fill a vacancy created otherwise than by the expiration of the term of a member shall serve for the unexpired term of his predecessor.

The members of the Committee (other than those who are at the same time members of the Federal Reserve Board) shall devote their entire time to the business of the Committee and shall receive salaries of \$12,000 per annum, payable monthly, together with actual necessary traveling expenses, which salaries and expenses, together with all other expenses of the Committee, shall be paid by the Federal Reserve Board

12

from the proceeds of assessments levied on the Federal Reserve banks in the manner prescribed by the Federal Reserve Act for defraying the salaries and expenses of the Federal Reserve Board: Provided, That the Committee shall annually submit a budget to the Federal Reserve Board which shall be subject to the Board's approval.

With the consent of the Federal Reserve Board, the Committee may utilize the services of members of the Board's staff; and, within the limitations of the budget approved by the Board, the Committee shall have authority to employ and fix the compensation of such additional experts, assistants, attorneys, clerks and other employees as may be deemed necessary to conduct the business of the Committee. All salaries and fees of its employees shall be fixed in advance by the Committee and shall be paid in the same manner as the salaries of the members of the Committee.

Retired appointive members of the Federal Reserve Board may, in their discretion and with the consent of the Committee, serve as ex-officio members of the Committee, in addition to the five appointive members; but such ex-officio members of the Committee shall have no vote and the aggregate amount of their retirement pay, plus any compensation received from the Committee, shall not exceed \$12,000 per annum.

It shall be the duty of the Committee to study (1) economic, industrial, financial and monetary conditions, the workings of the bank-

ing system and the Federal Reserve System, the effects of United States Treasury operations, the laws relating to banking, and any other factors which, in its judgment, may affect the stability of general economic conditions, and (2) the methods of aiding in the establishment and securing the maintenance of more stable economic conditions in the United States. The Committee shall report its findings from time to time to the Federal Reserve Board.

For the purpose of aiding in the establishment and securing the maintenance of more stable economic conditions, the Committee shall also make recommendations to the Federal Reserve Board from time to time with regard to the open market operations and discount rates of the Federal Reserve banks and the reserves required to be maintained by member banks of the Federal Reserve System. If adopted unanimously by the members of the Committee holding office at the time, the Federal Reserve Board shall proceed to put such recommendations into effect, unless they be disapproved unanimously by all members of the Federal Reserve Board holding office at the time.

If the recommendations of the Committee be not adopted by unanimous vote, a full statement of the reasons for such recommendations and full statements of the views of the minority members of the Committee and the reasons therefor shall be communicated in writing to the Federal Reserve Board. After reviewing such recommendations and the reasons of the majority and minority for and against the same, the Fed-

10

eral Reserve Board shall set a date for a hearing at which the members of the Committee shall appear. At such hearing, each member of the Committee shall be given an opportunity to state fully his reasons for or against the recommendations of the Committee and shall answer all questions pertaining thereto propounded by the members of the Federal Reserve Board.

Following such hearing, the Federal Reserve Board shall again review the recommendations of the Committee and, within a reasonable time, shall either approve or disapprove the recommendations of the Committee, with such modifications as the Board may deem to be in the public interest. If the recommendations of the Committee be approved by the Federal Reserve Board, the Federal Reserve Board shall proceed to put them into effect, with such modifications as it deems advisable.

The Committee shall not make public any of its recommendations or findings or the results of any of its studies or any other information in its possession; but the Federal Reserve Board shall publish all findings and recommendations of the Committee and statements of the Board's actions thereon, in the Board's annual reports to Congress in supplements thereto, or in the Federal Reserve Bulletin.

Upon the completion of the building which the Federal Reserve Board has been authorized to erect for its use, it may assign quarters therein for the use of the Committee.

10

The Federal Reserve Board, the Federal Reserve banks, the Secretary of the Treasury, the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Commissioner of Internal Revenue, the United States Tariff Commission, the Collector of Customs, and all other officers, employees, departments, bureaus, Boards, commissions, independent establishments and agencies of the United States are authorized and directed to make available to the Committee any information in their possession which the Committee may require for the performance of its duties under this Act.