August 13, 1935

Memorandum for
the President

Enactment of the Banking Bill of 1935 marks a great step forward in banking and monetary administration. It represents an authoritative recognition of the fact that, whatever may have been said in the past in favor of automatic regulators of money and prices, dependence on such regulators is not feasible in the post-war world. The public has lost faith in them because they have been proved to be unequal to the requirements of modern life, and at the present time the entire world is on some form of managed credit and currency basis.

Importance of strong Board

The Banking Act of 1935 entrusts the management of monetary and credit policy in this country to the governing board of the Federal Reserve System. While the System is given no new far-reaching powers, the powers that it possesses, so far as they concern national monetary policies, are centralized in the Board, which will now have an unescapable responsibility for the manner in which they are exercised.

Recognition by Congress of the increase in the Board's responsibilities finds expression in the advance in salaries of members, the lengthening of their term of office, the elimination of ex-officio members, and the provision for the reorganization of the Board.

The unmistakable feeling of the country is that the Federal Reserve System has failed to measure up to its responsibilities. To a certain extent this attitude is an inevitable reaction against bank failures and the depression. Nevertheless, a share of the responsibility rightfully belongs to the Federal Reserve System, because of its adherence to an obsolete tradition under which the Federal Reserve System was expected to be largely a passive agency for the accommodation of commerce and business. This obsolete tradition, bolstered up by antiquated provisions in the law, was accentuated by a lack of constructive leadership in the Federal Reserve System.

Changes in the law to bring it in line with modern thought and reconstitution of the Governing Board afford a great opportunity for rehabilitating the Federal Reserve System and regaining for it that degree of public confidence without which it cannot properly function.

Functions of Board Members

An important phase of this rehabilitation will be the selection of a strong Board that will command the respect and confidence of the people of the country.

It is of primary importance that all the members of the Board should have an understanding of national economic problems and should be qualified to assist in the formulation of monetary policies and the continuous study of banking problems. While the Banking Act of 1935 has improved the Federal Reserve structure and has helped to place the Federal Reserve System in a more rational relationship to the country's economic life, many problems relating to our banking structure remain to be solved. One of the tasks that will confront the new Board will be a study of the reforms necessary to bring about unified banking under Federal control, a

1-2-i

unification of banking supervision and administration in Washington, the problems of branch, group and chain banking, and a practical solution of the problem of the proper relationship between commercial banking and investment banking.

For the purpose of selecting individual Board members, it may be helpful to classify the specific duties given the System in accordance with the different phases of its broad responsibilities for supervision over the banking and monetary system. It should be emphasized, however, that such a grouping of matters for the primary consideration of particular Board members does not mean that such matters are not also to receive the attention of the other members or that the Board as a whole would be relieved of responsibility for any phase of its work. In a general way the duties of the Board may be classified as follows:

(a) Monetary policy matters, legislation and public relations;
(b) International banking and the capital market;
(c) Economic service;
(d) Federal Reserve bank and member bank credit;
(e) Admission to membership and operations of member banks;
(f) Federal Reserve bank operations;
(g) Security loans, and interlocking and other relationships of directors, officers and employees of member banks and Federal Reserve banks.

In the light of these duties, it would appear that the Board, in addition to the chairman, who would naturally have primary responsibility for monetary policies, as well as general executive responsibility for all of the Board's activities, should include one person with Federal Reserve banking experience, one with commercial banking experience, one who is

1-3-2

familiar with the security or investment market, one who is acquainted with foreign exchange and foreign conditions, one qualified to interpret the economic significance of business and financial developments, and one with experience and training in bank credit.

This arrangement of duties is not suggested as the only one feasible, and rearrangements may become necessary in the light of the particular talents of appointees actually selected for membership on the Board. Some division of duties, however, with specific primary responsibility of each individual member for certain phases of the work is highly desirable, not only as an aid in selecting members with the right qualifications, but also as an inducement for energetic men to accept positions on the Board and to facilitate the performance of the administrative functions of the Board.

1-4 i