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When the Banking Bill of 1935 was introduced last January the principal objects that it aimed to accomplish were in the order of their importance as follows: 1. To concentrate in a single public body authority and responsibility for national credit and monetary policies. 2. To eliminate unnecessary restrictions on the Reserve banks and the member banks that have proved to be ineffective in preventing disaster to our banking system and are now hampering economic recovery. 3. To improve the administrative machinery of the Federal Reserve System, and 4. To make it clear that the duties of the System are not merely passive and do not consist entirely of meeting the regional needs of member banks but must be shaped with reference to national conditions.

While the bill as it has been approved by the conference committee between the House and the Senate contains many concessions to the more conservative Senate point of view it nevertheless accomplishes the four purposes just enumerated.

1. The four existing powers over national monetary policies are now clearly concentrated in the Board of Governors of the Federal Reserve System which is to take the place of the present Federal Reserve Board. These four powers are to fix the discount rate, a power which the Federal Reserve Board always had but which has been more clearly vested in the Board by the present legislation through the requirement that the banks submit to the Board every fourteen days or oftener a rate for its approval or modification. This sets up a machinery by which the Board can at any time change the discount rates in effect in any of the Federal Reserve districts.

The second power is the power to change reserve requirements of member banks which under existing law could be exercised only in case of a national

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emergency and with the approval of the President of the United States. Under the Banking Bill of 1935 as reported from the conference committee, this power will be vested entirely in the Board of Governors, although at the insistence of the Senate conferees certain limitations have been prescribed within which these changes must be confined.

The third power is the power of changing marginal requirementx to be prescribed for security loans, a power remains in the Federal Reserve Board.

The fourth power, the one over which much controversy has developed, is the power over open-market operations. It was the contention of the House that open-market purchases of the Federal Reserve System, being an important element in determining the amount of bank credit or money that is available to the public and the cost of that credit, is a national matter and ought to be entirely within the discretion of the Federal Reserve Board, with the regional banks active only in an advisory capacity. The Senate, however, insisted on having the regional representatives be not only advisors but also to have a vote. On this point the House committee yielded. The Open Market Committee which is proposed will consist of seven members of the Board and five representatives of the Reserve banks selected regionally. This gives the Board a clear majority of all the votes on the Open Market Committee. The bill also provides that no particular region shall have an undue influence in the determination of the policies, because the representatives of the Reserve banks will be selected by their respective regions; one from Boston and New York, that is the industrial and financial northeast; one from Cleveland and Philadelphia, that is the manufacturing east; one from Richmond, Atlanta and Dallas, that is the south; one from Chicago and

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St. Louis, that is the industrial and agricultural middle west; and one from Minneapolis, Kansas City, and San Francisco, that is the west. With a clear majority of votes in the Board and the bank representatives selected on a regional basis covering the nation, the main objective of the legislation in concentrating responsibility in a statutory body with a national point of view has been accomplished.

2. The second objective was to eliminate unnecessary restrictions on Reserve banks and the member banks. This has been accomplished by liberalizing the requirements for eligibility of paper that can be used as a basis for borrowing at the Reserve banks. Under the old law only short-time paper arising out of the current needs of trade and industry was eligible as a basis of borrowing, while under the proposed law member banks can obtain advances from the Reserve banks on any paper that is satisfactory to the Reserve banks. They will no longer need to declare themselves in exigent circumstances in order to obtain credit on ineligible paper. They will not need to declare that they have exhausted all their eligible paper. They will be able to obtain advances without any of these preliminaries and the only concession that we had to make to the Senate was that they must pay one-half of a per cent more for credit obtained in that manner than for other advances. When a bank is in need of funds the one-half of one per cent per year is a trivial matter compared with the fact that the bank can at all times obtain assistance from the Federal Reserve banks.

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A situation can no longer arise, as it did in 1931 and 1932, when many banks with plenty of good assets were obliged to close their doors because the Federal Reserve banks were not in a position to help them because their paper did not qualify under the strict eligibility requirements of the then existing law.

Provisions in regard to real estate loans by national banks are greatly liberalized by the bill. The restriction on loans to fifty per cent of the value of the real estate has been raised to sixty per cent, provided the loan is on an amortized basis, and amortization can be on a twenty-year basis, provided forty percent of the amount is repaid within ten years. This will greatly enlarge the authority of the banks to lend on real estate and enable them to compete with other agencies making real estate loans, such as insurance companies and Government lending agencies. It is hoped that this will encourage the banks to participate more fully in financing building activity which is so essential to business recovery.

3. The administrative machinery of the Federal Reserve System has been improved by the bill in that the Federal Reserve Board will consist of seven appointive members without participation by ex officio members. This, together with longer terms and higher salaries, will make the Board a more independent agency and will make it better able to discharge its heavy responsibilities. The Senate bill proposed that not more than four of the members shall be members of one political party. We objected to that because we wished the Board to be non-political rather than bipartisan and on this point the House conferees prevailed.

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At the Reserve banks the administrative machinery has not been improved as much as the House would have liked to have seen it but much has been accomplished in that the law will now for the first time make it clear who is the chief executive officer in the Federal Reserve bank. Under the existing law there has been a possibility of conflict between the chairman, who is provided for in the law and is appointed by the Federal Reserve Board, and the Governor who is elected by the local directors without reference to the Board. The new law retains the chairman, which in the opinion of the House members was not necessary, but it clearly states that the chief executive of the bank shall be the President, who will take the place of the present governor, and that this officer, although selected by the local directors, shall be subject to approval by the Board in Washington every five years.

The proposal agreed upon by the representatives of the two Houses makes it clear where the responsibility for the conduct of the Federal Reserve banks is located and therefore constitutes a real improvement in the administrative set-up of the system.

4. Finally, the bill recognizes the regulatory functions of the Federal Reserve System in relation to the supply of money. The House wished to have this responsibility more clearly defined by giving the Board a specific mandate to use its powers to eliminate unnecessary and harmful fluctuations in employment, production and trade. The Senate was not willing to accept this mandate, but by concentrating the responsibility in a national body the bill, as proposed by the conferees, makes it clear that in matters of national policy the

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regional banks, two-thirds of whose directors are elected by the member banks, cannot be the determining factor, and that the ultimate responsibility for national monetary policies must rest upon the Board which constitutes a majority of the Open Market Committee, and has full power over the other instruments of credit control.

In reaching an agreement on this report there had to be a great deal of give and take, but the House conferees have the conviction that a great deal has been done towards accomplishing the four vital purposes for which the legislation was introduced.

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