My suggestion – Clayton

SENATE SUBCOMMITTEE DRAFT OF TITLE II

Monetary Policy

Although I have suggested what I think is a more desirable composition of the committee, this is not the essential point. Neither is it vital whether reserve bank governors are on the committee, and if so, how many as against Board members. The fundamental point in the provisions of the House bill, as passed, is that the committee, however composed, shall have complete authority and full responsibility for the exercise of all powers necessary for monetary control. There are three such powers; and control cannot be effectively exercised, in fact can be stalemated, unless all three powers are exercised by the same body. These powers are:

A. Open market operations.

B. Member bank reserve requirements.

C. Rediscount rates.

The provisions in the House bill were proposed in order to remedy the existing division of authority and responsibility with reference to the above powers. The Senate Subcommittee proposal retains this fatal division as it gives to the committee open market operations alone and even as to that, leaves considerable doubt as to whether the committee can make its policies mandatory on the reserve banks. It is utterly useless to have one body charged with open market operations and a different body charged with the changing of reserve requirements and raising or lowering of discount rates. Either body can effectively nullify the action of the other.

Reserve Requirements and Inflation

The Senate draft gives the Federal Reserve Board, under its new name, power to change the reserve requirements upon an affirmative vote of five of seven members but limits the lowering of the requirements to the present ratios and limits the increase of requirements to double the ratios now existing. It is not likely that a lowering of the existing ratios will become important but in view of the tremendous potential expansion of bank credit, it is entirely thinkable that doubling of present ratios might not be sufficient to effectively check a run-away inflation. Very likely the desire on the part of some members of Congress to restrict the power of the Board or the committee over reserve requirements, arises out of the fear of inflation but it is submitted that the raising of these requirements can only be used in the direction of controlling an inflation and, therefore, this power should not be limited.

The provisions in the House bill are in fact the minimum requirement for effective monetary control which must include (a) open market operations mandatory upon the reserve banks; (b) the regulation of member bank reserve requirements without any limitation; (c) raising or lowering of the discount rate in order to supplement and strengthen the effect of (a) and (b).

Reserve Bank Administration

The provisions of the House bill were intended to bring about a unified and economical administration of the Reserve banks, ending the present duplication. The Reserve Board was to give up the appointment of chairman and agent at each bank, together with the assistants and staff involved, the total of which for the System is approximately 800 persons. The office of chairman and agent was to be combined with that of governor, resulting in one executive head at each bank instead of two. By leaving the jurisdiction over this personnel to the boards of directors of the various Reserve banks, it was felt that a stronger and more economical local management would result. At the same time, cooperation between the Reserve banks and the Board at Washington was provided for by giving to the Reserve Board the approval of the chief executive officer of the Reserve bank. The term of this officer and other details in connection therewith are not important. The main points were unified administration, economy, and cooperation. The Senate bill entirely overlooks these forward looking considerations, leaving the present dual system in effect and, if anything, detracting from the present autonomy of the Reserve banks.