MEMORANDUM ON SENATE SUBCOMMITTEE DRAFT OF TITLE II

OF THE BANKING BILL OF 1935

The principal objectives to be achieved by Title II of the Banking Bill of 1935 are: (1) to delegate to a specific body powers of and responsibility for monetary control, and to give to that body the objective of using these powers so as to assist in restoring prosperity and thereafter in maintaining stable business conditions; (2) to improve the administrative machinery of the Federal Reserve System; (3) to determine more clearly the distribution of authority and responsibility between the Federal Reserve Board and the Reserve banks; (4) to eliminate unnecessary restrictions on the Reserve banks and the member banks that have proved to be ineffective in preventing disaster and are now hampering economic recovery.

The subcommittee substitute for Title II does little or nothing towards accomplishing these purposes. In order of the above points, the deficiencies are as follows:

1. MONETARY POLICY - (a) It fails to make it clear where the powers and responsibilities of monetary policy rest, some of these powers being left in the Reserve banks, some in the Board, and some vaguely in the proposed open market committee. There is also no broad objective towards which these powers should be used. (Detailed discussion here)

2. IMPROVING ADMINISTRATIVE MACHINERY OF THE FEDERAL RESERVE SYSTEM - (a) The subcommittee omits the power of the Federal Reserve

Board to delegate duties to individual members and other representatives. (detailed discussion here)

3. DIVISION OF AUTHORITY AND RESPONSIBILITY BETWEEN THE FEDERAL RESERVE BOARD AND RESERVE BANKS - (a) By retaining the chairman and agent and at the same time by creating a president and a vice-president of the Reserve banks, it continues the existing dual and clumsy organization.

4. ELIMINATION OF UNNECESSARY RESTRICTIONS ON RESERVE BANKS AND MEMBER BANKS WHICH HAVE INTERFERED WITH PREVENTION OF DISASTER AND NOW HAMPER ECONOMIC RECOVERY - (a) The subcommittee draft does not go far enough in removing useless restrictions on the Reserve banks respecting eligibility and collateral requirements, and on the member banks regarding real estate loans. (Detailed discussion here).