

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 2, 1935.

My dear Senators

Title II of the Banking Bill of 1935 as recommended by the Administration proposed to place responsibility for the exercise of existing, but now badly set up, powers of monetary control in one body divorced as far as possible from the pressures of partisan, political or private banker influences.

Its purpose was to vest that body with full authority to determine and execute its policy and to give it a definite guide or objective; specifically, one requiring it to use its powers, so far as they are effective, towards fostering recovery and then towards maintenance of stability of business--which is broadly meant to include agriculture--and employment. Furthermore, experience over a long period of years demonstrated the need for certain administrative improvements and for the removal of various hampering restrictions. Title II proposed amendments to effect these necessary changes.

The subcommittee of the Senate Committee on Banking and Currency has completely rewritten Title II from start to finish, and in so doing appears largely to have ignored the major purposes which the Administration sought to accomplish by Title II. As a result, the subcommittee's draft seems unrealistic. It does not place the Federal Reserve System in a position adequately to cope with future dangers of inflation and deflation. It would leave that System without guidance and without effective authority to exercise such powers as it has, limited though they are, towards avoidance of the very perils which the Administration bill sought to meet.

It is not too much to say that the preservation of our capitalistic economy, the fate of what we call the American System, depends upon our capacity to prepare ourselves adequately to prevent a recurrence of the disasters which all but destroyed us in the recent past. Title II as rewritten by the subcommittee is wholly unsuited to present day necessities. It is, therefore, entirely unsatisfactory.

Even the most cursory comparison of what was proposed by the Administration bill and what is now reported from the subcommittee will reveal how completely the measure in its changed form would frustrate the purposes of the bill as originally recommended or as enacted by the House. Not even necessary administrative improvements have been sanctioned.

The most glaring defect in the subcommittee's draft, in the one copy of it which was furnished to me only yesterday, is that it fails to concentrate the existing and all important powers in any one body. It therefore perpetuates the wholly unsatisfactory condition of divided authority and responsibility, although it purports to create a new body or committee to which it assigns responsibility for open market operations. In the draft at hand it gives that body no power to enforce its policy--an absurdity on its face. It leaves the two other important powers, those over discount rates and a restricted authority over reserve requirements, separately in the Reserve Board. Thus, conceivably the Board and the newly-created body might be found working at cross purposes, each frustrating the other's power. Such an arrangement, from every practical standpoint and above all from the standpoint of the country's welfare, would be very objectionable.

However, this is but one criticism of the subcommittee's draft. I am enclosing a memorandum giving in brief, comprehensive form an analysis of this and other objections to the subcommittee's draft. I feel that it is of the utmost importance that this memorandum have your immediate attention.

Sincerely yours,

M. S. Eccles,
Governor.

Honorable Duncan U. Fletcher,
United States Senate,
Washington.

enclosure