

Office Correspondence

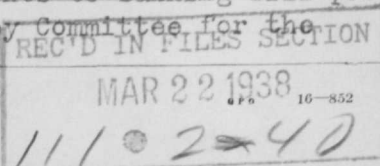
FEDERAL RESERVE
BOARD

Date April 17, 1935.

To Governor Eccles

Subject: Amendments to Banking Bill proposed by Committee for the Nation.

From Mr. Vest, Assistant Counsel.



This is in response to your request to Mr. Wyatt for a memorandum with regard to the changes which would be brought about in the banking structure by the amendments to the Banking Bill proposed by the Committee for the Nation.

In a letter from Mr. Earl Harding of the Committee for the Nation to Mr. Daiger under date of April 16, a copy of which is attached, it is stated that the proposed amendments inclosed therewith are approved by representatives of the Farm Organizations and by the Committee for the Nation. It is proposed, in lieu of your suggested amendment to section 204 of the Banking Bill imposing a duty upon the Federal Reserve Board to exercise its powers so as to promote conditions conducive to business stability, to substitute the following:

"It is hereby declared to be the policy of the United States that the average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets for the period covering the years 1921 to 1929, inclusive, shall be promptly restored; and that after such restoration shall have been achieved, the purchasing power of the dollar shall be maintained substantially stable in relation to a suitable index of basic commodity prices which the Federal Reserve Board shall cause to be compiled and published in complete detail at weekly intervals.

"The Federal Reserve Board, the Federal Reserve banks, and the Secretary of the Treasury are hereby charged with the duty of making effective this policy. To this end it shall be the duty of the Secretary of the Treasury to establish or cause to be established in the United States a free and open market in which gold may be bought and sold for use, investment or trade, and to determine, without limitations, and with the advice of the Federal Reserve Board, the amounts and the prices at which the Treasury shall buy and sell gold.

"Acts and parts of Acts inconsistent with the terms of this subsection are hereby repealed."

The above proposed amendments include substantially the provisions of the bill for restoring and maintaining the purchasing power of the dollar which passed the House of Representatives in May 1932. A copy of that bill is attached hereto for your information. The proposals of the Committee for the Nation, however, go further than did

To Governor Eccles - - 2

the bill referred to.

The proposals of the Committee for the Nation as contained in the suggested amendments may be stated as follows:

(a) It is declared to be the policy of the United States that the average purchasing power of the dollar for the period 1921-1929 be promptly restored;

(b) It is further declared to be the policy that the purchasing power of the dollar be then maintained substantially stable in relation to an index of basic commodity prices compiled by the Federal Reserve Board;

(c) The duty of making this policy effective is placed upon the Federal Reserve Board, the Federal reserve banks and the Secretary of the Treasury;

(d) The Secretary of the Treasury is required to cause to be established a free and open market for gold and to determine with the advice of the Federal Reserve Board the amounts and prices at which the Treasury shall buy and sell gold;

(e) Inconsistent statutes are repealed.

It does not appear that these proposed amendments would make any changes in the existing banking structure, but ^{they} would place upon the Federal Reserve Board, the Federal reserve banks and the Secretary of the Treasury certain duties which they do not now have.

The proposed amendments, of course, go much further than does your suggested amendment to section 204 of the Banking Bill. Your amendment would impose upon the Federal Reserve Board the duty of exercising its powers so as to promote conditions conducive to business stability and to mitigate unstabilizing fluctuations so far as possible within the scope of monetary action and credit administration. The amendments proposed by the Committee for the Nation would place upon the Board, the reserve banks and the Secretary of the Treasury the affirmative duty of making effective the policy of restoring the purchasing power of the dollar for the period 1921-1929 and maintaining such purchasing power, and would require a free gold market in which gold would be bought and sold by the Treasury in amounts and at prices designed to accomplish this purpose.

The proposed amendments specifically provide that acts inconsistent therewith are repealed and, accordingly, it would appear that certain provisions of existing law would be affected or qualified to some extent. Section 12A of the Federal Reserve Act provides in effect that

open market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. Section 14(d) of the Federal Reserve Act provides that discount rates shall be fixed with a view of accommodating commerce and business. Section 4 of the Federal Reserve Act requires the board of directors of each Federal reserve bank, subject to orders of the Federal Reserve Board, to extend to each member bank such accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks, the maintenance of sound credit conditions, and the accommodation of commerce, industry and agriculture. If circumstances should arise in which efforts to comply with these provisions of existing law might be inconsistent with efforts to stabilize the purchasing power of the dollar as required in the proposed amendments suggested by the Committee for the Nation, it is believed that the paramount duty of the Federal Reserve Board and Federal reserve banks would be to endeavor to stabilize the purchasing power of the dollar. However it does not seem probable that any such inconsistency would arise.

Respectfully,

George B. Vest
George B. Vest,
Assistant Counsel.

Attachments.

C O P Y

COMMITTEE FOR THE NATION
205 East Forty-Second Street, New York

Hotel Mayflower, Washington
April 16, 1935

Mr. J. M. Daiger
Federal Reserve Board
Washington

My dear Mr. Daiger:

Herewith, as requested, we are sending you copy of the text of proposed amendment to the H. R. 5357 as approved by the representatives of the Farm Organizations and by the Committee for the Nation. This text represents the minimum consistent with the resolutions which heretofore have been adopted by the Farm Organizations.

Very truly yours,

(Signed) Earl Harding

Gov. Eccles has proposed an amendment to Sec. 204 of H.R.5357 and S. 1715:

On page 44, between lines 7 and 8, insert a new paragraph as follows:

(b) Section 11 of the Federal Reserve Act, as amended, is amended by adding at the end thereof a new subsection as follows:

"(c) It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action and credit administration."

AS A SUBSTITUTE for the foregoing subsection, we propose the following:

It is hereby declared to be the policy of the United States that the average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets for the period covering the years 1921 to 1929, inclusive, shall be promptly restored; and that after such restoration shall have been achieved, the purchasing power of the dollar shall be maintained substantially stable in relation to a suitable index of basic commodity prices which the Federal Reserve Board shall cause to be compiled and published in complete detail at weekly intervals.

The Federal Reserve Board, the Federal Reserve banks, and the Secretary of the Treasury are hereby charged with the duty of making effective this policy. To this end it shall be the duty of the Secretary of the Treasury to establish or cause to be established in the United States a free and open market in which gold may be bought and sold for use, investment or trade, and to determine, without limitations, and with the advice of the Federal Reserve Board, the amounts and the prices at which the Treasury shall buy and sell gold.

Acts and parts of Acts inconsistent with the terms of this subsection are hereby repealed.

--o--

72d CONGRESS
1st Session

H. R. 11499

IN THE SENATE OF THE UNITED STATES

April 29 (calendar day, May 3), 1932

Read twice and referred to the Committee on Banking and Currency

AN ACT

For restoring and maintaining the purchasing power of the dollar.

Be it enacted by the Senate and House of Representatives of
the United States of America in Congress assembled, That the Federal
Reserve Act is amended by adding at the end thereof a new section to
read as follows:

"SEC. 31. It is hereby declared to be the policy of the United
States that the average purchasing power of the dollar as ascertained
by the Department of Labor in the wholesale commodity markets for the
period covering the years 1921 to 1929, inclusive, shall be restored
and maintained by the control of the volume of credit and currency."

SEC. 2. The Federal Reserve Board, the Federal reserve banks,
and the Secretary of the Treasury are hereby charged with the duty of
making effective this policy.

SEC. 3. Acts and parts of Acts inconsistent with the terms of
this Act are hereby repealed.

Passed the House of Representatives May 2, 1932.

Attest:

SOUTH TRIMBLE,

Clerk.