To the Banking and Investment Committee,
Young Men's Board of Trade of New York,
41 Park Row,
New York City.

In an endeavor to obtain a clearer understanding of the significance of the various proposed bills before the 73rd Congress aiming at the establishment of a central bank for the United States, the Banking and Investment Committee on November 5, 1934 decided to make a comparative study of the Federal Reserve System and the most important foreign central banks. The foreign banks included in this survey were -

The Bank of Canada
The Bank of England
Reichsbank
Bank of France
Bank of The Netherlands
Bank of Switzerland
Bank of Italy
National Bank of Belgium
Bank of Japan.

Analyses of the different central banks, including the Federal Reserve System, were made along analogous lines, so that upon completion of the study your reporting committee was in possession of full comparative data with regard to these banks.

Recognizing the growing dependence of the Federal Reserve System upon the policies of the Government and the continuous increase in the System's holdings of Government securities, particular emphasis was placed upon the degree of governmental supervision over the management of the various foreign central banks, and also upon the extent to which these banks are authorized to finance their respective governments.

The result of our findings may briefly be summarized as follows:

1. GOVERNMENTAL SUPERVISION OVER THE MANAGEMENT OF CENTRAL BANKS:

With the exception of the Federal Reserve System, which is owned by the member banks, the outstanding shares of the central banks under review are held by the public, subject to certain restrictions as to the nationality of shareholders, their voting privileges, etc. In contrast with the Federal Reserve System, which, as mentioned before, is owned by the member banks, the Bank of Canada Act specifically provides that none of that Bank's stock shall be held "by or for the benefit of any chartered bank" and that "no chartered bank shall have any interest, directly or indirectly, ... in any share of the Bank".

We have come to the conclusion that there are present in the various central banks widely divergent degrees of Government interference; ranging from practical independence as in the case of the Bank of England and the Bank of Canada, to the Bank of Japan, over which the Japanese Government seems to have complete jurisdiction.

2. EXTENT OF OPEN-MARKET OPERATIONS IN GOVERNMENT OBLIGATIONS:

Here, too, we have discerned a great variety of provisions. One extreme is represented by the Bank of The Netherlands, which is definitely limited as to its holdings of obligations of the Dutch Government, and the Swiss National Bank, which may hold Swiss Government bonds for temporary investment only. The other extreme is featured by the Federal Reserve System, which under the emergency banking legislation of 1933 is authorized practically to double its present holdings of United States Government securities amounting to about $2,430,000,000.

The Bank of Canada Act provides that, with the exception of the bonds transferred to the Bank by the Minister of Finance in consideration of the Bank's assuming the outstanding Dominion notes, the Bank's holdings of Dominion securities maturing within more than two years may not exceed three times the amount of the Bank's paid-up capital. This provision, in the opinion of your reporting committee, represents a valuable and efficient safeguard against unsound currency manipulations. The introduction of a similar provision into the Federal Reserve Act might do much to set at rest fears of currency or credit inflation in this country.

Generally speaking, our study has led us to the following conclusions:

1. There should be in every country only one agency authorized to issue currency.

2. This agency should be as free from political interference as possible.

3. Central bank credit should, as much as possible, reflect the volume of business prevailing in the respective country. Such credit primarily should be represented by short-term items, such as bills discounted or bought, evidencing actual business transactions. The practice on the part of some central banks of holding substantial amounts of medium or long-term investments ipso facto prevents the contraction of central bank credit when and if desired, and tends to add to the inflexibility of their respective currencies.

THE FEDERAL RESERVE SYSTEM

While we fundamentally find ourselves in sympathy with the present Administration's long-term social and economic policies, we view with grave concern recent developments in the banking structure of this country. In order to demonstrate these developments, we have prepared, and they are annexed hereto, the following Exhibits:

"A" - A comparison of the Federal Reserve System as at October 2, 1929, March 1, 1933 (just before the present Administration came into office) and February 6, 1935.

"B" - A comparison of the status of all member banks as at October 4, 1929 and October 17, 1934 (the last call date).

"C" - A table showing the percentage of Federal gross debt held by the Reserve banks and member banks as at the end of December, 1934 and the end of February, 1935.

In connection with the status of the Federal Reserve banks, we consider it appropriate to give you a brief review of the events that, in our opinion, have affected the Federal Reserve System since the beginning of the depression, and particularly since the advent into power of the present Administration.

The Federal Reserve System originally was conceived as a network of local central banks, with the Federal Reserve Board in Washington as something in the nature of a main office. While it is true that six members of the Federal Reserve Board are appointed by the President of the United States by and with the advice and consent of the Senate, and that, in addition, the Secretary of the Treasury and the Comptroller of the Currency are members of the Board ex officio, there was left to the individual Reserve banks a large degree of independence, both as to management and as to the extent of open-market operations. As a result of this set-up, the Federal Reserve System, up to the

Banking Emergency of March, 1933, fulfilled substantially the same functions as the various foreign central banks, which were included in our study, and the System up to that time was substantially independent of the Treasury. The first serious infringement upon this independence was reflected by the Thomas Amendment to the "Agricultural Adjustment Act" passed early in 1933. This Amendment authorized the President of the United States in his discretion

> "to direct the Secretary of the Treasury to enter into agreements with the several Federal Reserve banks and with the Federal Reserve Board whereby the Federal Reserve Board will ...... purchase directly and hold in portfolio for an agreed period or periods of time, Treasury bills and other obligations of the United States Government in an aggregate sum of $3,000,000,000, in addition to those they may then hold ....."

As the Federal Reserve banks at that time held an aggregate amount of $1,836,000,000 of United States Government securities, they can theoretically increase their holdings to about $4,800,000,000, which is approximately double the amount of their present holdings.

Having thus become considerably dependent upon the policies of the Treasury, the "Gold Reserve Act of 1934" and the provisions and regulations defining that Act further contributed to curbing the autonomy of the System. The Federal Reserve banks at that time were obliged to surrender to the United States Government the gold held by them in exchange for gold certificates at the old statutory price of $20.67 per ounce fine. It was only under strong protest that the Federal Reserve Board yielded to the pressure of the Government, and, in this connection, we refer your attention to the statement by the late Governor Black of January 17, 1934, printed in the Federal Reserve Bulletin of February, 1934, pages 73 to 76.

An analysis of Exhibit "A" indicates that, in spite of the decline in business, which has occurred since October, 1929, assets and liabilities of the Federal Reserve banks today are about 75% higher than at that time. The explanation is principally due to an increase in gold reserves of about $2,400,000,000, an increase in government securities of about $2,300,000,000, which was partially offset by a reduction in discounts, and bills bought aggregating $1,200,000,000. The difference of $3,500,000,000 is accounted for by an increase in Federal Reserve notes outstanding and member bank reserve accounts.

Whereas in October, 1929, United States securities amounted to but 10.4% of the total Federal Reserve bank credit outstanding, such obligations today account for practically the total of all Reserve bank credit. This is all the more significant as these bonds represent deficits previously incurred by the Federal Government.

Even more alarming is the distribution of maturities of the various items composing the total Federal Reserve bank credit. Exhibit "A" shows that at present 82.1% of the Federal Reserve bank credit outstanding does not mature within 90 days, as against only 1.8% in October, 1929. We feel that it is impossible to over-emphasize the importance of these figures which clearly indicate a pronounced tendency toward illiquidity of the Federal Reserve System.

Your reporting committee fully subscribe to the opinion expressed in a recent report by the Chamber of Commerce of the State of New York, which refers to this situation as follows:

> "In general, it (the Chamber) desires to record its opinion that the Federal Reserve System has been diverted from its original purpose of supplying short-term credit and an elastic currency based thereon, and that it should be brought back to this purpose as quickly as possible."

Moreover, it appears from Exhibit "A" that the amount of bills discounted and bought by the Federal Reserve banks has declined very much more drastically since 1929 than would seem justified by the decline in the volume of trade.

An additional element of danger to the country's currency is indicated by the fact that member banks hold almost $10 billion of Government securities, a substantial part of which might be rediscounted at the Federal Reserve banks in the event of an emergency.

The situation discussed heretofore has become a great deal more dangerous by the proposed "Banking Act of 1935" which, unfortunately, appears to bear the stamp of the President's approval. This new Act, if passed by the Congress in its present form, would so completely change the provisions of the Federal Reserve Act that we have prepared for your information Exhibit "D", which is intended to show the nature of the most important changes proposed with regard to the Federal Reserve System. If the new Act were to become law, the Federal Reservey System would be reduced to just another governmental department, and its open-market operations would then be completely controlled by the Administration. The suggested change to Section 14 is of particular importance because it would be more than likely to enhance the illiquidity of the country's currency.

While we concerned ourselves exclusively with the status of the Federal Reserve System and the changes that have taken place in Federal Reserve policies, we feel that we should make certain pertinent remarks with regard to the commercial banking situation.

In Exhibit "B" there is shown a comparison of the status of all member banks of the Federal Reserve System as of October 17, 1934 with that of

October 4, 1929. As we had occasion to remark heretofore in connection with our discussion of the Federal Reserve System, the amount of loans made by the member banks has declined quite out of proportion with the decline in the volume of the country's business. On the other hand, this total decline of all loans, amounting to $13,900,000,000, has been partially offset by an increase in the holdings of United States Government securities amounting to about $5,200,000,000. This development, viewed in conjunction with the discussion in connection with the Federal Reserve System, indicates the extent to which Government credit has replaced private credit during the last five years. It is our opinion that this tendency should be reversed as soon as circumstances permit.

The proposed "Banking Act of 1935", if passed, would considerably increase the volume of other than self-liquidating loans of the member banks inasmuch as it authorizes commercial banks to make long-term advances on real estate up to about 75% of the appraised value of the underlying property (Section 24). If the proposed Act were to go into effect, such loans might eventually be rediscounted by the member banks with the Federal Reserve. Such a development, in our opinion, would decidedly make further inroads upon the flexibility of Federal Reserve bank credit.

CONCLUSIONS:

We summarize our conclusions as follows:

1. Instead of reflecting the requirements of the country's business, Federal Reserve bank credit today is almost exclusively represented by Government securities, mostly of other than short-term maturities. This situation renders our currency highly inflexible and should gradually be removed. Except under special circumstances, the major part of Government obligations held by the Federal Reserve banks should mature within 90 days. There should be a more or less definite ratio linking the amount of securities maturing within more than 90 days with the capital of the Federal Reserve banks and/or the fiscal revenue of the Federal Government.

2. The decline during the last five years in the volume of Bills Bought and Bills Discounted by the Federal Reserve banks has far exceeded the decline in the country's business.

3. The Federal Reserve System should become the exclusive agency authorized to issue currency in the United States.

4. An impartial investigation should be undertaken to ascertain the desirability of selling to the public the capital stock of the Federal Reserve banks now held by the member banks, subject to certain restrictions as to the nationality of the owners, their voting power, etc.

5. The proposed "Banking Act of 1935" constitutes in every respect an undesirable measure. If passed, it would completely deprive the Federal Reserve System of any remaining vestige of independence, and further endanger the liquidity of the people's money.

6. In order to provide loans of longer maturities, the Government and/or the Federal Reserve authorities should undertake a study of the advisability of creating a system of mortgage banks similar to those long and firmly established in several leading countries.

7. We believe, that a program such as outlined above would not be inconsistent with the Government's duty of providing unemployment relief, which should be continued under all circumstances. However, we feel that the liquidity of the currency should be preserved at all cost.

As we realize that the problem of central banking is most closely interconnected with that of general commercial banking, we suggest that the Young Men's Board of Trade of New York, at an early date, undertake a study of the latter subject.

This report is an expression of our opinion regarding recent developments in the Federal Reserve System, which we consider incompatible with the welfare of the people of this country.

Respectfully Submitted,

SUB-COMMITTEE ON CENTRAL BANKING

New York, February 18, 1935.

EXHIBIT "A"

COMPARISON OF CONDENSED FEDERAL RESERVE STATEMENTS

(in millions of dollars)

	Feb.6,1935	Mar.1,1933	Oct.2,1929	Comparison of figure as at Feb. 6, 1935 wi Mar.1,1933	Oct.2,19
ASSETS:					
Total Gold Reserves	$5,445	$2,892	$2,983	$2,553	$2,462
Bills Discounted	6	712	930	706 d	924
Bills Bought	5	384	323	379 d	318
United States Securities	2,430	1,836	145	594	2,285
Industrial Advances	18	-	-	18	18
Other banking assets other than items afloat	358	312	340	46	18
Total Banking Assets	8,262	6,136	4,721	2,126	3,541
Bank Premises	49	54	59	5 d	10
Total Assets other than items afloat	8,311	6,190	4,780	2,121	3,531
LIABILITIES:					
Federal Reserve Notes	3,127*	3,580	1,851	453 d	1,276
Member Bank - reserve account	4,632	2,038	2,399	2,594	2,233
Other Deposits	212	119	72	93	140
Other Liabilities	36	24	37	12	1
Total Liabilities other than deferred	8,007	5,761	4,359	2,246	3,648
Capital and Surplus	304	429	421	125 d	117
Total Liabilities (other than deferred) plus Capital and Surplus	8,311	6,190	4,780	2,121	3,531

	Feb.6,1935	Mar.1,1933	Oct.2,1929
Total Reserve Bank Credit Outstanding -	2,466	2,936	1,400
of which: Bills discounted	.2%	24.2%	66.5%
Bills bought	.2%	13.1%	23.1%
U.S.Government Securities	98.6%	62.6%	10.4%
Other	1.0%	.1%	-

Approximate maturities of Total Federal Reserve Bank Credit Outstanding -

	Feb.6,1935		Mar.1,1933		Oct.2,1929	
1 - 30 days	$ 83	- 3.4%	$934	- 31.8%	$930	- 66.5%
31 - 60 days	167	6.8	244	8.3	160	11.4
61 - 90 days	183	7.4	391	13.3	167	11.9
over 90 days	2,025	82.1	489	16.7	26	1.8
Undeterminable	8	.3	878	29.9	117	8.4
Total Federal Reserve Credit	2,466	-100.0%	2,936	-100.0%	1,400	-100.0%

*Including Federal Reserve Bank Notes.

d indicates Decrease

EXHIBIT "B"

CHANGES IN MAJOR ITEMS AFFECTING STATUS OF ALL MEMBER BANKS 1929-1934

(in millions of dollars)

LIABILITIES:	Oct. 17,1934		Oct. 4, 1929		Change $	Change %
Total Deposits	32,285		36,644		4,359 d	11.9
National Bank Notes Outstanding	662		641		21	3.3
Other Liabilities, including reserves for contingencies	1,029		3,489		2,460*d	70.5
Total Liabilities (other than capital and surplus)	33,976		40,774		6,798 d	16.7
ASSETS:		in % of Liab.		in % of Liab.		
Cash in vault	550	1.6	497	1.2	53	10.7
Balances with Federal Reserve Banks	3,976	11.7	2,322	5.7	1,654	71.3
Due from banks	2,823	8.3	2,005	4.9	818	40.9
Loans:						
To Banks -	149	.4	640	1.6	491 d	76.8
To Others -						
secured by stocks and bonds	3,325	9.8	8,109	19.9	4,784 d	59.0
secured by real estate	2,297	6.8	3,152	7.7	855 d	27.1
secured otherwise or unsecured	5,161	15.2	11,988	29.4	6,827 d	57.0
Open-Market Loans -						
Acceptances	306	.9	163	.4	143	87.6
Commercial paper	253	.7	228	.6	25	10.9
Loans to New York brokers	802	2.4	1,885	4.6	1,083 d	57.4
Total Loans	12,293	36.2	26,165	64.2	13,872 d	53.0
Customers' liability on a/c Acceptances	258	.8	989	2.4	731 d	73.9
Securities:						
U. S. Government securities	9,186	27.0	4,022	9.9	5,164	128.4
Securities guaranteed by U.S.Government	709	2.1	-	-	709	
Other	5,372	15.8	5,727	14.0	355 d	6.2
Total Securities	15,267	44.9	9,749	23.9	5,518	56.6
Total all above Assets	35,167	103.5	41,727	102.3	6,560 d	15.7
Total loans secured by stocks and bonds, plus securities owned by member banks.	19,445	57.2	20,063	49.1	618 d	3.1

*Of which $747 million was due to a contraction of acceptances outstanding.

d indicates Decrease

EXHIBIT "C"

United States Government Obligations held by Federal Reserve Banks and Member Banks as at end of February, 1933 and December, 1934.

(in millions of dollars)

	End of December 1934	in % of Total Gross Debt	End of February 1933	in % of Total Gross Debt	Change $	Change %
TOTAL UNITED STATES GROSS DEBT	28,479		20,935		7,544	36
of which held by -						
Federal Reserve Banks	2,430	8.5	1,866	8.9	564	30
Reporting Member Banks in 91 cities	7,191	25.2	4,631*	22.2	2,560	55
Other Member Banks (Partly estimated)	2,700	9.5	1,450	6.9	1,250	86
	12,321	43.2	7,947	38.0	4,374	55

*Reporting Member Banks in 90 cities.

These figures indicate that about 58% of the increase in the Government's gross debt from the end of February, 1933 to December, 1934 was absorbed by Federal Reserve and Member Banks. They do not take into consideration banks other than member banks, for which corresponding figures were not available to us. On June 30, 1934, banks other than member banks or mutual savings banks included in the statement of the Federal Deposit Insurance Corp. reported holdings of Government securities amounting to $571 million.

The December, 1934 figures for other than reporting Member Banks were arrived at by increasing the holdings of these banks as of October 17, 1934 in the same ratio, in which the reporting Member Banks increased their holdings during the same period.

Federal Reserve Act, as
:ing Act of 1935"

Proposed Change

"In selecting the six appointive members of the Federal Reserve Board the President shall choose persons well qualified by education or experience or both to participate in the formulation of national economic and monetary policies. Not more than one of the appointive members shall be selected from any one Federal Reserve district, except that this limitation shall not apply to the election of the governor."

"There is hereby created a Federal Open Market Committee, which shall consist of the governor of the Federal Reserve Board, who shall be chairman of the committee; two members of the Federal Reserve Board, selected by the board; and two governors of the Federal Reserve banks, selected by the governors of the Federal Reserve banks in accordance with procedure prescribed by regulations of the Federal Reserve Board."

"The Federal Reserve banks shall conform their open-market operations to the provisions thereof. The committee shall aid in the execution of such policies and/or perform such other duties relating thereto as the Federal Reserve Board may prescribe."

"Upon the indorsement of any member bank, which shall be deemed a waiver of demand, notice and protest as to its own indorsement exclusively, and subject to such regulations as to maturities and other matters as the Federal Reserve Board may prescribe, any Federal Reserve bank may discount any commercial, agricultural or industrial paper and may make advances to any such member bank on its promissory notes secured by any sound assets of such member bank."

"Provided, that any bonds, notes or other obligations which are direct obligations of the United States as to principal and interest may be bought and sold without regard to maturities."

The most important
contemplated by th

Present Act

Federal Reserve Board:

Section 10 "In selecting the six appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests, and geographical divisions of the country."

Federal Open Market Committee:

Section 12A "There is hereby created a Federal Open Market Committee, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select one member of said committee."

"If any Federal reserve bank shall decide not to participate in open-market operations recommended and approved as provided in paragraph (b) hereof, it shall file with the chairman of the committee within thirty days a notive of its decision, and transmit a copy thereof to the Federal Reserve Board."

Rediscounts:

Section 13 "Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest of such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. .... Notes, drafts and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than 90 days, exclusive of grace."

Open-Market Operations:

Section 14 "Every Federal reserve bank shall have power: ....
(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board."

WHEREAS the Banking and Investment Committee of the Young Men's Board of Trade, New York has made a comprehensive study of developments affecting the Federal Reserve System and,

WHEREAS, that Committee has reached certain conclusions set forth in its current report appended herewith,

NOW, THEREFORE BE IT RESOLVED, that the conclusions of this report represent the concensus of opinion of the Young Men's Board of Trade, New York with respect to desirable policies for the Federal Reserve System, and

BE IT FURTHER RESOLVED that copies of this resolution and report be sent to the President of the United States, the Secretary of the Treasury, the Governor of the Federal Reserve Board, the Comptroller of the Currency, the Chairman of the Currency and Banking Committees of the House and the Senate, Senators, Representatives, and leading economists.