BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 29, 1946.

To Chairman Eccles

From Mr. Vest

Subject: System responsibility in credit field -- Legislative history.

Last week I submitted to you a brief resume of the statutory responsibilities of the Federal Reserve System in the credit field. Since then we have examined the legislative history of various provisions of the law on this subject and have prepared a memorandum of some length in this connection. I give below a few of the statements taken from the legislative history which illustrate the clear intention of Congress that the Board of Governors and the Federal Open Market Committee should have definite responsibility and final authority with respect to these matters.

Senator Fletcher, in explaining the Open Market provisions of the bill which became the Banking Act of 1935, said on the floor of the Senate:

> "We shall, through this act, definitely fix the responsibility for and the power to engage in open-market operations in the Federal Reserve Board. In the future, when money becomes 'easy' or money becomes 'tight' or when we are led into a period of inflation or a period of contraction and economic demoralization, we shall be able to put our finger upon the Federal open-market committee and say, 'You are responsible.'"

In connection with the conference report on this bill, Mr. Goldsborough said in the House:

> "* * * Under the conference report they [i.e., the Board] control the open-market operations. The Federal Reserve Board represents the public; the Secretary of the Treasury is off of it and the Comptroller of the Currency is off of it. * * * "

Regarding discount rates and reserve requirements, Senator LaFollette said in connection with the Banking Act of 1935:

> "The new Board itself, as constituted under the pending bill, will have complete control over rediscount rates and reserve requirements."

The House Banking and Currency Committee report on the bill said with respect to reserve requirements: "It is essential to give the Board more authority in controlling credit conditions * * *." and "* * *It is important to clarify the Federal Reserve Board's power to arrest inflation."

Representative Williams declared that by giving the Board "levers of control" over credit conditions (by means of open market operations, discount rates, and reserve requirements) "it is hoped and expected that the Federal Reserve Board shall so regulate and control the expansion and contraction of currency and credit throughout the Nation as to accommodate agriculture, commerce, and industry."

Regarding margin requirements, the report of the Banking and Currency Committee of the House with reference to the bill which became the Securities and Exchange Act of 1934 contained the following:

> "* * * All speculative credit should be subjected to the central control of the Federal Reserve Board as the most experienced and best equipped credit agency of the Government."

There are many other comments in like vein as those mentioned above, all showing clearly that the Board and the Open Market Committee have the authority and the responsibility for action in this field.

GBV