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Section 205^{of the House Bill} provides for giving the Federal Reserve Board full au-

thority over open-market operations after consultation with a committee of five governors of the Federal Reserve banks, elected by the twelve governors. This provision has been subjected to severe criticism on the ground that it increases the powers of the Board as against the powers of the Reserve banks. It is true that this proposal adds open-market operations to the instruments of monetary policy, which are now possessed by the Federal Reserve Board. This is done on the theory that the three principal instruments of monetary policy, namely, raising or lowering of the discount rate, changes in reserve requirements, and open-market operations should all be in one body that is clearly defined and that has unescapable responsibility for the policies it adopts.

There has been criticism of this provision on the ground that the Federal Reserve Board, which has no financial interest in the Reserve banks, will by this provision acquire control over their funds. This would be a good argument for having the Government buy the stock in the Federal Reserve banks. For, if a small investment of \$146,000,000 with an assured 6 percent return entitles the member banks to have a dominant say in the formulation of national monetary policies, then the only rational conclusion would be inevitable that they must not be permitted to hold the stock. The necessity of Government control of the public function of regulating the volume and cost of money should be beyond dispute. Another variant of this argument against the concentration of authority over open-market operations in the Federal Reserve Board is that the Federal Reserve banks obtain their available funds from member banks, and that, consequently, the boards of directors, which represent the member banks, should have the power to determine the manner in which these funds are to be employed. This contention would run counter to any attempt to entrust the determination of monetary policy to a public body; it would carry its proponents far beyond the proposals

in the new bill, into the heart of the present Federal Reserve Act itself, which, among other things, authorizes the Board to order one Reserve bank to rediscount the paper of another. The argument, furthermore, is based on a wrong assumption, since the Reserve banks do not obtain their funds from the member banks, except to the extent that these funds arise from the deposit of imported gold. The funds of the Reserve banks, or rather their ability to lend and invest, is not obtained from any source, but arises from the power given them by Congress to issue notes and create deposits. It is a power bestowed upon the Reserve banks by the Government, and it is fitting that its exercise be under control by a governmental body.

At the time the Federal Reserve Act was enacted, the conception of money was largely limited to currency, and over currency the Federal Reserve Board was given complete control. This conception has since had to be expanded to include bank deposits as money, and the Board's power to regulate the volume of deposits is in harmony with its power over currency issues. The fact is that it was intended in 1933 to give the Board this power, but in the course of legislation the section dealing with this matter was distorted and there was created what appears to be an impossible situation. Open-market policies can be initiated only by the governors on the Open Market Committee. The Federal Reserve Board has the power to approve or disapprove of policies adopted by the governors, but policies recommended by the governors and approved by the Board may still be nullified by refusal of the directors of the Reserve banks to participate in their execution. In a matter which is of vital national importance and in which timeliness and speed may be decisive, it is obviously undesirable to have a complicated machinery calculated to bring about obstruction and delay, rather than to have a clear-cut fixation of responsibility on a national body appointed

for that purpose.