Debates on Banking Act of 1935

RE: RELATIONSHIP WITH TREASURY DEPARTMENT.

With respect to this suggestion the following comments by Senator Glass are of interest. These comments were made on the floor of the Senate following the committee report on the bill (see 79 Congressional Record pp11776--11777)

MR. GLASS. "That briefly covers the outstanding provisions title I of the bill. I come now to title II of the bill with which I have somewhat more familiarity, and which is really of infinite importance to the banking and business interests of the country.

It will be noted upon examination of the bill that we change the title of the Federal Reserve Board by proposing to call it hereafter the "Board of Governors of the Federal Reserve System." That was done largely at the suggestion of the senior member of the Federal Reserve Board, Dr. Miller. Representation was made to the committee that to have a governor and vice governor of the Federal Reserve Board was to place all other members of the Board at a disadvantage in the matter of prestige and of influence upon problems presented for consideration. Therefore he suggested that the Board be called the "Board of Governors of the Federal Reserve System."

Since the establishment of the system, and now, the Secretary of the Treasury and the Comptroller of the Currency have been members of the Federal Reserve Board. Periodically, it has been urged upon the Banking and Currency Committees of the two Houses of Congress that these two officials should be eliminated, for various reasons. With respect to the Secretary of the Treasury, it was urged--and I know it to be a fact, because I was once Secretary of the Treasury--that he exercised undue influence over the Board; that he treats it rather as a bureau of the Treasury instead of as a board independent of the Government, designed to respond primarily and altogether to the requirements of business and industry and agriculture, and not to be used to finance the Federal Government, which was assumed always to be able to finance itself.

Moreover, it was represented that these officials, except when of their own initiative they wanted something to be acted on, rarely ever attended meetings of the board. I think the present Secretary of the Treasury has attended only two or three meetings. I do not think I, as Secretary of the Treasury, ever attended more than one or two meetings of the Board; but, all the same, I dominated the activities of the Board, and I always directed them in the interest of the Treasury, and so did my predecessor, the present Senator from California (Mr. McAdoo). That, however, was because when he functioned

it was during the war, and when I functioned it was in the immediate post-war period, when the difficulties of the Treasury perhaps exceeded those of the war period. Certainly they were not less.

"In the Banking Act of 1932, which passed the Senate overwhelmingly, there was a provision eliminating the Secretary of the Treasury, and upon a record vote it was retained in the bill by 62 to 14, after considerable discussion on the floor, which indicated that the Senate concurred in the better judgment of those who think the Secretary of the Treasury and the Comptroller of the Currency should not be on the Board.

"That provision would have been retained in the Banking Act of 1933 but for the fact that the then Secretary of the Treasury, in wretched health which eventuated in his death, was greatly concerned about the matter, and was rather importunate and insistent in desiring to be retained as a member of the Board. In the bill which we have reported, however, we leave off both the Secretary of the Treasury and the Comptroller of the Currency, with no dissent from these officials. The bill constitutes the Board of Governors of the Federal Reserve System of seven members, to be appointed by the President, by and with the advice and approval of the Senate. The President is authorized to appoint one of these governors as chairman of the Board, and another as vice chairman of the Board."

During the debate in the Senate there was considerable discussion of influence exerted by Governor Strong and the Federal Reserve Bank of New York and also Dr. Miller's explanation of this situation. In this regard the following may be noted. Ibid pp. 11910

"MR. BORAH. I ask this question: Undoubtedly the Board did know what Mr. Strong did. They were informed by him as to what he had been doing. He secured their approval. Under the law, that is permitted to be done, provided it meets the approval of the Board. That is true under the provision just read.

"MR. GLASS. My recollection of the incident is that he did not ask even the approval of the Board. He operated on his own initiative and contended that he had a right to do it. I was unable to find any sanction of law for any such action, whether it was taken by a Federal Reserve bank or the Federal Reserve Board.

"If the Senator can devise any provision of law which will compel public officials to do their duty under the statue, I shall be very glad to have him do it.

"MR. BORAH. I may not be able to draw an amendment which will compel a public officer to do his duty, but the first thing to do in this bill is to fix and define that duty--set up a standard to guide the official. If he does not comply with the standard, we can provide for his dismissal. I will present such an amendment during the day.

"Mr. President, Dr. Miller stated, referring to Mr. Strong:

" 'His ideas began to develop in the spring of 1927, but his program was not shaped until after conferences with representatives of the three great European central banks who visited the United States

in the summer of that year. This program was then presented to the Federal Reserve System in informal conferences with Federal Reserve bank governors, proposed to the Federal Reserve Board and approved by it, and participated in by all the Federal Reserve banks, with dissent on the part of only one.'"

"MR. GLASS. That simply illustrates what I have said for years. It was first presented to the Secretary of the Treasury, and the Secretary of the Treasury, together with the governor of the New York Federal Reserve Bank, dominated the Board. The Secretary of the Treasury ought not to be on the Board."

During the debate, Senator Thomas argued that the government through the Treasury Department should buy the stock of the Federal Reserve Banks. Senator Thomas even offered an amendment which would provide for such government ownership. This amendment was lost, however, during the course of the debate on this matter. The following may be noted: Ibid p. 11924

"MR. THOMAS..Mr. Miller says that the leadership rests upon the Federal Reserve Bank of New York, and in this case of emergency that leadership failed.

"I desire to place in the RECORD at this point one or two other statements from this very valuable document. I have respect and regard for the testimony, even if others do not seem to give the testimony much weight.

"I want to show the Senate, if I may, from this testimony, what the Federal Reserve Board was up against here in Washington. I read from page 27 as follows:

"'It is not without significance in current discussions as to the proper distribution of authority between the banks and the Board that during the tension occasioned by the acute differences over the leadership of the Federal Reserve System in the 6 months following the Board's declaration of its position of February 2, 1929—'

"They were having difficulty. A contest arose between the banks on the one side and the Board on the other, and this is what Mr. Miller says of that contest, and of what the Board in Washington had to face before they could act.

"'the five members of the Board—'

"That is, the Federal Reserve Board here in Washington—

"'the five members of the Board who took the responsibility of formulating the attitude and policy for the Federal Reserve System were opposed by a minority of their own membership.'

"In other words, the minority members of the Board were against the five. Five of the members undertook to formulate a policy, and they were opposed in the first instance by the balance of the members of the Board. I quote further: