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HOUSE BLOC FORMED BY PATMAN

Since the attached memorandum was prepared, Congressman Patman has organized a bloc of 126 members of the House to support a bill providing for Government ownership of the Federal Reserve banks. In a statement issued April 13 it was announced that the group has drafted a seven point program that is to be embodied in legislation to be introduced later in the session.

These proposals, which include a number of points not covered in his bill now before the Committee, may be summarized as follows:

1. The Treasury to purchase the stock of the Federal Reserve banks.
2. The Government to own and operate the Reserve banks.
3. Banks which are members of the Federal Deposit Insurance Corporation to be given the rediscount and other privileges of the Reserve System, provided their reserves are carried with the Federal Reserve banks.
4. The Reserve Board to be authorized to increase or lower reserve requirements for the purpose of preventing inflation and deflation.
5. All bank examinations by Federal Reserve agencies to be made without charge to the banks.
6. Profits of the Reserve banks to accrue to the Treasury.
7. All employees except directors and officials of the Federal Reserve banks to be placed under civil service.

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ANALYSIS OF CONGRESSMAN PATMAN'S BILL H. R. 5010

by
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Chief provisions

Congressman Patman's bill is not greatly different from the usual run of monetary authority proposals. It contains the following provisions: (1) a declaration of monetary policy; (2) the administration of this policy is vested in the Board of Governors; (3) the Treasury is authorized to purchase the stock of the Federal Reserve banks; (4) the Board of Governors shall appoint Class "B" directors of the Federal Reserve banks; (5) a new form of currency is to be issued by the Board of Governors to replace those types now in circulation.

Analysis of bill

The bill gives the appearance of having been hastily drafted. It is extremely short and makes no reference to many monetary powers which obviously would come within the province of the country's supreme monetary authority. In general the bill's provisions are vague and in some instances are in conflict with each other. The bill if enacted would, therefore, be difficult to administer.

Declaration of policy

A most serious criticism of the bill is its declaration of policy, which reads as follows:

"... it is hereby declared to be the monetary policy of the United States to regulate the value of money; to coin, issue, and create money in sufficient quantity to provide for the full

employment of all the people capable of labor, and a full utilization of the natural resources of the country, and to so regulate the volume of credit and currency, thenceforth as to prevent injurious expansion and contraction; and thereby to establish and maintain a dollar of uniform, permanent, debt-paying, purchasing power, by stabilizing the price level."

As is the case in most of the so-called monetary authority proposals, the above criteria of policy promise far more than can be achieved by the exercise of monetary powers alone. The dogmatic statement of objectives gives the impression that the System has adequate powers to carry them out and would, therefore, be responsible in the event of failure. If this view were generally accepted, however, it would leave the System open to criticism even when unfavorable business, employment and price developments are clearly the result of non-monetary causes. In such circumstances the use of monetary controls would very likely be an inappropriate method of remedy.

Even in the field of monetary control the Reserve System's powers are not complete and the bill grants no essential new powers. Those monetary powers now possessed by the President and the Treasury are left unchanged.

The proposed objectives, if taken literally, would seem to have an inflationary bias. The theory that the creation of a sufficient quantity of money will provide for full employment of all people capable of labor and full utilization of natural resources means the adoption of a perpetual easy money policy. Such a policy, if pursued vigorously, would

inevitably result in injurious credit expansion and rapidly rising prices, which are cited in the bill as conditions that monetary policy should seek to prevent. Thus, the charge of conflicting aims can be added to the more general objection that monetary controls alone cannot accomplish the results desired by the bill.

Administration of policy and stock ownership of Federal Reserve banks

The Board is given full control over the formulation and execution of System policy, and in addition, is authorized to appoint the Class "B" directors, thus giving it a majority control of the boards of directors of the regional Reserve banks. With the Board having these powers, it would seem of little importance from the standpoint of administrative control for the Treasury to hold title to the stock of the Federal Reserve banks. From Congressman Patman's remarks in the Congressional Record it appears that his concern is not with the control aspect but, rather, with the distribution of profits. The savings through eliminating the dividends to member banks on their Federal Reserve stock, however, would be negligible compared with total Federal expenditures. Assuming the Treasury would borrow at slightly less than three percent to obtain funds for the purchase of stock, the saving would amount to only about \$4,000,000 per annum.

With reference to the instruments of control there is one rather curious provision in the bill which states that the Board, in making its policy effective, may call upon member banks or State nonmember banks engaged in interstate commerce to cooperate. While this is an extremely vague grant of authority, it would seem to be the intention to give the Board some positive control over commercial banks' credit

extension. A subsequent section, however, belies this interpretation by providing that the passage of the Act shall not interfere with the present rights of member banks in dealing with their customers, with the Federal Reserve banks, or in the election of Class "A" directors of the Reserve banks.

Issuance of currency

The authority to issue a new currency to replace those types now in circulation appears to involve centralization of note-issuing powers, which is of no great importance. Nothing is specified in the bill as to the regulations or reserve requirements which shall govern future issues of currency.

General comments

Perhaps the best line of attack on the bill would be to minimize the importance of the proposed changes. The declaration of policy does not add much to the theory and practice of monetary control. It could be pointed out that the Board agrees in general with the objectives of policy and at present directs its action towards promoting banking and credit conditions that will be favorable to obtaining full and stabilized employment of our labor and natural resources. Moreover, the Board seeks to prevent injurious credit expansion and contraction and wide fluctuations in the general price level. At the same time it recognizes that its powers are limited and that other measures must be used to supplement monetary measures if we are to attain a marked degree of economic stability in the future. General belief, however, that proper monetary control can solve our economic problems would give a feeling of false security and involve danger of actually encouraging unsound speculation.

As the System is now organized, the dominant voice in policy-making is vested in the Board of Governors, which is a public body whose members are appointed by the President with the consent of the Senate. The Board has majority representation on the Federal Open Market Committee. It has the power of review and determination of the rates of discount charged by the Reserve banks. The appointment of the president and vice president, the chief officers of the individual Reserve banks, is also subject to Board approval. In view of the broad powers now possessed by the Board in matters of System policy, the additional powers granted by the bill would make little change in the operations of the System.