Extemporaneous Statement by Governor Marriner S. Eccles
Made in Response to a Question During the Conference
of the Chairmen of the Federal Reserve Banks on
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MR. ECCLES: When the Federal Reserve Act was originally passed in 1913 it was expected it would be a regional system pretty largely in its monetary and credit policies. There was no such thing as an open market committee or open market operations by the System. The idea that Senator Glass had in setting up the Federal Reserve System was to create what was known as a flexible currency. That carried out the Parker Willis idea. Prior to that time you did have great rigidity. Practically the only currency that existed was national bank notes and they had no expansive power. The ability of the country banks or nonreserve city and smaller reserve city banks to get funds was largely dependent on their ability to get them from the central and large reserve city areas. They held the gold which was the basis of the reserve.

When there was a panic or a contraction of credit or a loss of

gold, there was no flexibility to meet the situation, there was no way of getting credit for the use of carrying on commerce, industry, and agriculture. That had been recognized for quite a number of years prior to the Federal Reserve Act of 1913 and a committee was appointed by Congress to go to Europe to study the central banks of Europe. I think that committee recommended a central bank along the lines of the Bank of England and the Bank of France and some other central banks, but politically it didn't seem possible. So a system of regional banks was created, and those banks had the authority to expand their currency and issue notes based upon a certain security of eligible paper and gold. The Board, of course, was set up in Washington as the general supervisory body with certain powers.

MR. AVERY: What was that eligible paper?

MR. ECCLES: The Board issued the regulation, as I get it, to cover the eligibility.

MR. MORRILL: Primarily defined in the Federal Reserve Act as basically ninety-day paper with the exception of agricultural paper.

MR. ECCLES: The agricultural paper was nine months. It wasn't Government paper. It was paper which was used for commercial and agricultural production from ninety days to nine months paper, self-liquidating out of the transaction itself. That was the basis upon which it was set up, 40 per cent gold and 60 per cent of that type of paper, and each Bank fixed its own discount rate. The matter did not have to be submitted to the Board periodically, as has been the case since the Banking Act of 1935. And, as a net result, you had a great variation of interest

rates depending upon the views of the bankers pretty largely, because they were the dominant factor in each Bank.

It was expected, however, that the Board would exercise very great control over the Banks because the Board had the appointive power of the chairmen who were to be the full-time chief executives of the Banks. There was no provision for a president, a governor, or a deputy governor as such in the law. The chairman, and agent, was the full-time man and he together with his board of directors was expected to select an adequate organization to run the local Federal Reserve Bank.

Banking opposition to the Federal Reserve System, particularly on the part of central reserve city banks and the reserve city banks was formidable. They lost and they tried to get on the Board of the Federal Reserve System. They tried to get the right to appoint representation. It was a minority, wasn't it, that they wanted?

MR. MORRILL: Yes.

MR. BRAYTON WILBUR (Chairman, Federal Reserve Bank of San Francisco): That was in 1913?

MR. ECCLES: That was in 1913. They wanted to get the right to a minority. President Wilson, as Mr. Szymczak has explained earlier, didn't give it to them, but they got the Federal Advisory Council, to give advice to the Board of Governors. The Council was set up without any statutory authority whatsoever, except that of advice. They used their position as quite a springboard. The system was set up, as I have indicated, six members of the board of each of the Banks being elected by the bankers. They became pretty largely, I think,

the dominant force and it wasn't long until they had created a strong working organization and had designated what was known as a governor, although the governor was not recognized as such in the statute. They worked very closely together. The governors had their own conference and became the dominant force in the System.

Too often, I think, political influences were brought to bear on the chairmanships. Here was a Board in Washington that was appointed by the President, a Board of seven, the Secretary of the Treasury acting as the Chairman of the Board. The Comptroller of the Currency was an ex officio member of that Board, and they were, of course, political appointees. One member of the five who were appointed by the President for ten-year terms was designated by the President as the Governor of the Board to serve at the pleasure of the President. So you immediately had the Governor, the Chairman, and the Comptroller forming a part of an organization that was pretty responsive to the weight of political forces.

It soon developed that in most instances the Reserve Bank Chairmen whom the Board designated were not nearly as strong as the men whom the directors of the Banks chose as governors, and the governors, even though not provided for as such in the statute, became the dominant force in the System, led by New York.

MR. PARTEN: You mean the governors of the individual Banks.

MR. ECCLES: The governors of the individual Banks. The Board in Washington permitted that to happen, they permitted them to be designated as governors. They permitted them to get larger salaries than the

Chairmen got in most instances. In most cases the Chairmen got something like $20,000 and the governors got $25,000 to $50,000.

When I came on the Board, outside of two Banks, the governors were the dominant force. In those two Banks, and I would just as soon mention them--one was Minneapolis where John Peyton was the Board selection as Chairman, and where John Peyton was there was the head of the table. The other was in Cleveland where we had Lew Williams who left to go with the National City Bank of Cleveland, a very able person.

MR. WYSOR: The Chairmen then were selected by the Board of Governors?

MR. ECCLES: Just the same as they are now, but they were full-time. I am saying that was the situation.

So the System was pretty largely being run by the governors of the twelve Banks.

To follow through on the open market setup, Ben Strong in New York became the Governor there and he soon completely dominated the System. I would say he dominated the System just as completely as Governor Norman did the Bank of England. When it came to dealing with the central banks of the world and with the Treasury, Ben Strong was the one who would do it. When the Governor of the Bank of England came over here he went to Ben Strong. He did not go to the Board and the Board wouldn't even know that the Governor of the Bank of England had been here. That was during the twenties. Ben Strong was completely running the System, and the New York Bank was the only Bank that really effectively carried out an open market policy. They did it pretty largely in bankers' acceptances. That

was the money market operation. They bought and sold bankers' acceptances. By that method they drew funds from the market or put reserves into the market.

Later on some of the other Banks were wondering why they shouldn't buy and sell Governments. They had reserves; they had funds; and it would help their earning picture. Each Bank was on its own earning basis. It wasn't a pool. Each Bank had its own separate earning basis. I think it was Dallas that bought Governments in the market because they thought it was a good investment.

MR. SZYMCZAK: Dallas and Kansas City.

MR. ECCLES: Their discounts were being paid off. Their liquidation and their earnings were going down. In order to maintain their earnings they started to buy independently and, of course, that upset matters, because some Banks were selling and thus absorbing reserves and others were buying and thus creating reserves. That resulted in a chaotic condition.

Glass originally conceived of a decentralized regional system. It couldn't work. A regional operation was unworkable and impossible on a monetary basis.

MR. WOODLIEF THOMAS (Director of the Division of Research and Statistics, Board of Governors): There was another consideration. As one Bank would buy Government securities, its earnings subsequently would go down that much more because the Reserve Bank purchases of securities gave the member banks money to pay off their loans. So, instead of

increasing their earnings, they reduced their earnings.

MR. ECCLES: That is right.

Then the Bank governors set up a voluntary committee known as an open market committee. New York decided they had better have a committee in order to make a System policy. As long as the other Banks were getting into the picture, they decided it would be better to have a national policy. So the committee was set up at the instigation of New York.

MR. MORRILL: I want to mention that in the inception they called it an investment committee. The broader idea of its functions and purposes developed gradually.

MR. CLAYTON: There were no representatives on it other than the governors. There were no Chairmen.

MR. ECCLES: It was the governors' committee and it was dominated by Ben Strong. In 1933 Congress set up a statutory open market committee composed of the twelve governors. That was the first time they became recognized in the law. That was when everything was collapsing.

MR. CARPENTER: That was in the Banking Act of 1933.

MR. ECCLES: Up until that time it had been a voluntary thing.

MR. SZYMCZAK: It was subject to the approval of the Board in the Banking Act of 1933.

MR. ECCLES: Yes, but in the Banking Act of 1933 the Board could take no initiative at all. The initiative was entirely up to the

committee. The Board had the veto power but not the initiative. Each one of the twelve Banks, the directors of those Banks, could determine whether or not they would participate in the purchase or the sale of open market paper, Government bonds, and so forth.

MR. WILBUR: This was prior to the 1935 act?

MR. ECCLES: That is right. That was in 1933.

They had considerable difficulty with some Banks which were sometimes a bit more obstreperous than the others. The others followed New York pretty completely. The Open Market Committee would decide that it would buy or sell and each Bank was then expected to take its participation. The Committee established the basis of the participation and after it made its decision the Board could either take the responsibility of vetoing or approving it. That was the way the thing stood. Up to that time we had been through the boom of 1929 and we had been through the crisis after 1929 and the Bank Holiday.

Until I came to the Treasury to do some work in connection with the Federal Farm Mortgage, the Home Owners Loan, and the RFC, as the representative of the Treasury, I had never met President Roosevelt. The Treasury had to approve certain operations of these organizations and I was brought in there as a businessman and banker to act for it, as well as represent it in connection with the development of a housing program. I had not been there many months when I was asked by President Roosevelt if I would take the governorship of the Federal Reserve Board. Eugene Meyer was the Governor during the crisis under Hoover. He had

left shortly after Mr. Roosevelt came in. They had brought up Governor Black of the Atlanta Bank temporarily and he stayed about a year. But he only had leave of absence and couldn't remain indefinitely. So he went back and there was a vacancy on the Board during this period of time, from June when he left until November when I came in.

When the President wanted me to go on the Board, I told him I would not be interested in going on the Board under the circumstances. I felt that a complete change was needed from the original concept that prevailed in 1913. We had been through a war and two depressions. The situation had completely changed, and the System needed to be revised. I told him that I thought the Board had lost its standing, that New York had been able to take over the control and was looked on everywhere as the agency that was running the System. The Board had largely developed into what I told him was a debating society without either force or effect and under the circumstances I would not be interested.

He said, "What do you think ought to be done?"

I said, "If you will let me come back, I will give you a program in two weeks."

I had thought a little about it, but I had not gotten it down. So I wrote the skeleton of Title Two of the Banking Act of 1935 and went over it with him. I was with him nearly two hours and went over the various points with him and the reasons for them.

When we finally got through he said, "You know, there will be a knockdown and drag-out fight to get that through Congress. It will

be awfully difficult, but we might just as well have that knockdown and drag-out fight now as any other time. If you will go on the Board and take the governorship, I will support that program." That is how I went on the Board, with the distinct understanding that he would support that program. I was appointed in November and I didn't get confirmed until April. If there ever was formidable opposition to anyone, that was it. I told Tom McCabe he couldn't get into this club without being initiated. The bankers did everything in their power to defeat my confirmation because they didn't want the bill. I had gotten the bill introduced in January. I didn't wait for confirmation. I had been advised several times that, if I withdrew my support of the bill, there would be no trouble about my confirmation, which, of course, I did not do.

When we talk about Senator Glass' idea of a decentralized banking setup, we think of the Reserve Act of 1913, but we must also think of the Banking Act of 1933 and the Banking Act of 1935. When he submitted the Banking Act of 1933, Glass castigated the acts of the New York Bank and criticized the Federal Reserve Board for failing to exercise the supervision that the original law intended. That was one of the principal reasons for the features of that Act with reference to the foreign operations of New York. He took policy out of the hands of New York and specifically put it into the hands of the Board.

When it came to the Banking Act of 1935 we asked for a lot more power than we got. I had been in business long enough to know that you have to deal that way. That is what is expected. So we asked for more

powers than we got or we expected to get, but there was a provision which was basic and that was the setting up of an Open Market Committee which was national and which dealt with such operations on a national basis. It couldn't deal with it on a regional basis. Money isn't regional. It finds its level like water and it isn't local, it is national, especially in an economy where you have telegraphic transfers and air mail and all the rest of it, along with radios, and so forth.

So in the Banking Act of 1935 we recognized the national aspect of the operation. It made the Board the Open Market Committee and included five Bank Presidents. The House passed the bill with the Board the sole Open Market Committee and it was only in the Senate where the compromise developed. So the Committee was set up as it is set up now, as a compromise between the House and the Senate, in which five Bank Presidents and seven Board members make up the Open Market Committee.

MR. DEARMONT: Were the five Bank Presidents created at that time?

MR. ECCLES: I didn't propose the Presidents. I proposed that the Governors be recognized as the chief executive officers. They were so recognized. The Senate designated them as Presidents.

Dr. Miller, who was on the Board, made the proposal in his appearance before the committee that the name of the Board be changed to Board of Governors. It was not my proposal to get rid of the Secretary of the Treasury and the Comptroller of the Currency. It was the Senate that said that the Federal Reserve Board was too close to the Government, that the Secretary of the Treasury and the Comptroller of the Currency were

political appointees and as such they should not be on the Board. That was Glass in the Senate who took the Secretary of the Treasury and the Comptroller of the Currency off the Board. He had been Secretary of the Treasury and Chairman of the Board so he knew what he was doing. He also decreased the Board from eight to seven members. There were seven regular members and no ex officio members. They also changed the Governors to Presidents, and they gave to the Board the power to veto their appointments for the first time.

Prior to that time the Board had nothing to say about this situation. It was at that time they also gave the Board the authority to increase reserves, to double reserve requirements in all cities. That was in the Banking Act of 1935. That was when the Board got that authority.

So there was the open market, there was the reserve requirement. In the House bill the Board was given the right to designate the President in each Bank. In that bill the Chairmen were made Honorary Chairmen. It was the Senate that did not change the status of the Chairmen. We could still designate the Chairmen as full-time members, but it was the Senate that recognized the Presidents of these Banks as full-time executive officers to be appointed for a term of five years by the directors of the local Bank with the approval of the Board. The same procedure was set up for the First Vice Presidents. The reason was that the chief executive officer of a Bank not only performed the function of running that Bank locally, but he also had to represent the Federal Reserve Board on a lot of functions. Therefore, if he was not approved by the Federal Reserve Board, then he

possibly could not properly represent the Federal Reserve Board. Therefore, we were given the veto power for that purpose. It wasn't meaningless at all. The legislative history will show that the Presidents of these Banks were expected to represent the Board in a lot of its activities and operations.

There is one other thing that is very important in this centralized control, and that is the question of the discount rate. Some of the Reserve Banks contended that they had the authority to fix the discount rate at anything they chose and the Board could not change it. Glass disagreed with that and there was a real controversy in the late twenties because Glass contended the Board had the right and I think Chicago contended that the Board did not have the right.

So Glass, in order to make sure that this was centralized in the Board, in the Banking Act of 1935 provided that the discount rate would have to be submitted to the Board every two weeks for its approval and, if they failed to approve it, then the discount rate prevailing would continue or, if they chose to direct another rate to be established, that would be the rate.

MR. CLAYTON: The statute said it is subject to review and determination.

MR. ECCLES: If there was any question about whether it was centralized or decentralized, he fixed it.

MR. VEST: The Attorney General held the Board had the right to initiate rates, in the controversy with Chicago.

MR. ECCLES: I understand that. I wanted to make the point about Glass getting away from the regional idea into the centralized feature when

it came to the Banking Act of 1933 and the Banking Act of 1935. When you look at the Federal Reserve System, you must look at the System from its development in 1913 and then look at the statutes passed in 1933 and 1935. The legislative history of those statutes must be taken into account, also. Therefore, the question of the centralization on a national scale of the monetary and credit authority being in the Board, in so far as the discount rate is concerned it has the responsibility. They leave the initiation up to the Banks. But, as far as Congress is concerned, that responsibility is recognized in the Board. So far as the reserve requirement matter is concerned, it is in the Board and it has always been in the Board. The question of designating reserve cities, central reserve cities and nonreserve cities is in the Board. The question of open market operation is in the Board and five Presidents.

Mr. Steagall pointed out to the committee when he finally accepted the amended bill that the majority of this very important Committee was put in a public body appointed by the President and confirmed by the Senate.

MR. DEARMONT: And five men that they approved.

MR. ECCLES: And five men that they approved, that is right.

MR. EVANS: Would you like to comment how it would have been impossible to finance a war if we hadn't had a central Open Market Committee?

MR. ECCLES: I believe that ought to be almost obvious. The record of the financing of the war shows that as much as $8 billion dollars a month was being spent, the public debt grew from around 40 billion to 280 billion in the short space of four or five years. The public debt was 60

per cent of all debt. It would be perfectly obvious that in order to do that at a fixed interest basis, which was maintained throughout the war, we had to have a centralized open market operation. We said to the Treasury, "We will finance whatever is necessary at the rates of interest now prevailing." That was just before the war, and we did. That could not have been done without a coordinated centralized control of this problem.

The problem today is even more difficult than the problem of financing the war. It is one thing in a war when there are other controls besides monetary controls, when there were a lot of direct controls that supplemented the monetary controls, when you had the public getting money that they could not put anywhere else, then you could sell them a lot of savings bonds. There was the patriotic feeling of supporting the Government. However, today there is the difficult job of managing this terrific public debt, especially today without a budgetary surplus.

It wasn't so difficult when the Government was paying off a substantial amount. That was a great anti-inflationary pressure. But today, without the Government paying off, the job of managing this public debt becomes just as difficult and just as important as it was to finance the war. And without centralized control, it would be impossible. The great difficulty today that the Open Market Committee has is, to what extent is it going to be dominated by the Treasury? I think we pretty largely agree, and, if there is any disagreement from the Board, they can say so, that in so far as the open market operations are concerned, we are convinced we must support the 2-1/2 rate and in the refunding we must support the rate that the Treasury finally decided upon

and that we can, as we have done, advise the Treasury and bring all the influence to bear that we can as an Open Market Committee on the Treasury to accept our counsel and advice. If the Treasury, as it did a couple of weeks ago, does not accept the advice and take our counsel, we do not feel that we should enforce our will upon the Treasury. They refunded the short-term paper at 1-1/8 although we suggested another program. After all, the Treasury is the agency primarily responsible for Government finance. It is the fiscal agency of the Government, and they are part of the political setup in power. I am sure the Federal Reserve would get into great difficulty if they tried to enforce their will. But when it comes to the question of increasing reserve requirements, and the question of discount rates, it is the Board's responsibility so long as it does not cost the Treasury any more money, because that is the thing that affects them.

MR. SZYMCZAK: Except at that time it is proper to say that we have the same statutory responsibility for our open market operations, only that they are in the Open Market Committee, seven Board members and five Presidents, but the law says very specifically that we should operate in the open market for the purpose of facilitating or aiding commerce and industry.

MR. ECCLES: I am not questioning the legal authority.

MR. SZYMCZAK: Those responsibilities are in the act as well as on the reserve requirements.

MR. ECCLES: I am not questioning the legal authority at all of enforcing our will. So far as the law is concerned we could refuse to

support the Government security market if we thought it was in the general interest of business, agriculture, and commerce to have a different rate.

Elliott, what was it that the governor of a central bank said about his right?

MR. ELLIOTT THURSTON (Assistant to the Board of Governors): A question came up and I said, "Do you feel your bank has the right to defy the Government?"

He said, "Oh, yes, we value that right very greatly and wouldn't think of exercising it." (Laughter)

MR. ECCLES: That is about the story.

MR. SZYMCZAK: It might operate on both counts.

MR. ECCLES: I want to point out one other thing with reference to the Board's responsibilities under the statute. That is the question of the direct authority to fix wages and salaries. I want to point out how we have had to work that out. Naturally, you can not fix the wages and salaries of every single individual when you have 20,000 employees. So we adopted what we called a wage-and-salary-classification plan that leaves a good deal of leeway and latitude to the Banks in so far as how they will classify their people. That is entirely up to them. What they pay people within any grade is up to them within the salary ranges. All we do is set up what we feel is the least we can do to comply with the statute, and those are general over-all standards of wages, under the wage and classification plan. After that the responsibility is up to the Reserve Banks. Here is a case where we have decentralized in so far as we feel we can. But if there is someone we feel is not the best person in

examination or research, which used to be operated directly under the Chairmen, we might suggest that this man might not be the best man or suggest somebody else, but that is as far as we have gone in connection with the personnel of any of the Banks.

When it comes to the question of expense, we have tried to establish over the years general policies so as not to have one Bank go this way and another one the other way. In that way we could always be in a position to say to the Congress that the Board is exercising general supervision and we must remember that the entire residual interest in the Reserve System belongs to the Government, and it is important that the Board, the agent of Congress, in the absence of being under the supervision of the Comptroller General and in the absence of being under the budget, exercise some general supervision over the question of expenditures in order to be prepared for the possibility of being investigated, as it has been periodically in the past. As to the question of other regulations, as you all know, we have a whole list of regulations. There are regulations with reference to the basis upon which a bank can expand credit on other than eligible paper at a penalty rate of 1/2 per cent higher than the established discount rate. We have to make the rules and regulations governing the margins on brokers and bankers on listed securities on a registered exchange under our power to supervise margin loans under the Securities and Exchange Act of 1934. That is a central function.

I can go on indefinitely because there are numerous regulations, interpretations, rulings, and X letters that all call for

centralized action. Under the statutes the Board has to decide and we have always done that.

However, before the Board issues a final regulation or any important interpretation, ruling, or X letter which affects the operations of the Reserve Banks or member banks, the question involved is submitted to the Reserve Banks for consideration and for their suggestions. That is where the regional nature of the System comes in. The Presidents of the Banks consider these questions with their staffs and, no doubt when they feel it is important, their boards of directors are informed. We have always followed this procedure as a practical matter. To have the opportunity to be heard is part of the regional nature of the System. We get the benefit of the views of the Banks. We may not always be able to accept them, however, because frequently there is a conflict of views among the twelve Banks. As an example, we might point to the question of changing or standardizing the conditions of membership which has been discussed recently. There was a real divergence and difference of views among the Banks. On the question of reclassification of member banks as between banks in reserve cities and outside of reserve cities, there were also differing points of view. These were given full consideration before conclusions were reached. On the other hand, there are many matters such as those involving the extension of credit to banks and projects in the field of bank and public relations where the initiative and decision is with the Reserve Bank of the district under general policies and regulations.

The Conference of Reserve Bank Presidents is purely an informal

committee and, although seven of the Presidents are not members of the Open Market Committee, they have always been permitted to sit with the Open Market Committee and the members who are on the Open Market Committee have been permitted to bring their economists who sit in with the Open Market Committee.

The Conference of Presidents meets in Washington three or four times a year, for a day or two and sometimes three days, to consider items that they have placed on their agenda, mostly operating matters that they are concerned with in their Banks. The Board of Governors also submits for the agenda of the Conference matters that the Board wishes to discuss with the Presidents. The Presidents consider all these matters and then they have an executive session with the Board so that everybody can let down his hair and tell the others what he thinks. Thus we have a procedure by which we try to keep any differences that we may have within the family. They have not always kept differences within the family but they should.

MR. AVERY: That is the Conference of Presidents?

MR. ECCLES: Yes. This year Chester Davis is Chairman, last year Allan Sproul was. In that way the Presidents, coming from the different districts, have a chance to develop their problems and then come before the Board, and the Board and the Presidents have an opportunity to exchange ideas and talk things out.

MR. CLAYTON: That is four times a year.

MR. ECCLES: That is four times a year. Now we also meet with the Chairmen twice a year. We meet with the Federal Advisory Council four

times a year. They come in to Washington. In connection with their meetings they have the right to call for all the information they need and they also call in such members of our staff as they desire to consult.

MR. WILBUR: Are the meetings of the Federal Advisory Council well attended?

MR. ECCLES: One hundred per cent, seldom anybody absent. That is held four times a year. Then there is also the executive committee of the Open Market Committee on which there are three Board members and two Presidents, and the Chairman of the Board acts as chairman of the committee. New York has always been accorded the vice chairmanship of the Open Market Committee, because the New York Bank is designated by the Open Market Committee to manage the System's open market account under the direction and the policies of the Committee.

To go further, we have periodic conferences of our examiners. The man in your Bank in charge of examination comes into Washington and meets with Mr. Leonard, head of the Board's Division of Examination, and his staff on all questions of examination. This is a regional operation, but in order to get uniformity the Board has these meetings. It operates through the Reserve Banks in examination and membership matters. While in the statute the Board specifically has the responsibility, it delegates it under the direction of our Examination Division.

In the case of research, Mr. Thomas, who is the Board's Director of Research, brings in the directors of research of all the Banks periodically and they have subcommittees on various studies that are being undertaken for the System. Some of those studies have been published. They have a continuing group of subcommittees that are constantly working. The

Research Committee is composed of the head of the research department in each Bank and our Director of Research. We even have had all the lawyers in during the past year with the idea of discussing common or mutual problems. Mr. Smead who is in charge of the Division of Bank Operations is constantly meeting with the Banks.

It is unfortunate that the public get the idea from people in the System that the Federal Reserve is more centralized in its operation than it must of necessity be under the statute for the Board to carry out its functions. It has decentralized in the regional areas everything that it could decentralize and many things that it did not need to decentralize. That is always done.

Maybe I should have talked more about the Open Market Committee, but I wanted to give you the background and the picture of the Federal Reserve System as I view it at this time of my demise. (Applause)

MR. NEELY: I would like to suggest that that statement be sent to all the directors.

MR. PARTEN: On this Open Market Committee there are five Presidents in addition to the Board who constitute the Committee. How are they selected?

MR. ECCLES: The statute fixed the groups of Reserve Banks. That put New York and Boston together, Philadelphia and Cleveland together, Richmond, Atlanta, and Dallas, the southern group, and the western group, Minneapolis, Kansas City, and San Francisco. That was in the Banking Act of 1935.

The Banks agreed to rotate in the selection of their representatives on the Committee, although it wasn't necessary under the statute.

Those Banks had the right to select the members as they wanted. They didn't have to select a president, they could select a vice president. They did at one time try to select a banker of the district not connected with the Reserve Banks. We made a fight on that and told them we wouldn't seat him. Although the statute did not provide specifically that the Bank could not do that, the whole legislative history and intent were against it. They backed away from it.

Later Boston did not like the fact that New York was always on the Committee and therefore Boston never had a representative. New York had always gone up and persuaded Boston that New York was so important that it ought to continue to have a member on the Committee. They succeeded in doing that until the Boston board finally rebelled and said it was not going to happen again. New York was very anxious to stay on the Committee. We felt that New York was useful and desirable to have on the Committee because it was managing the System's account and was in the money market. So we sponsored or proposed and got the Administration to agree to legislation to amend the law to provide, as a practical matter, a new grouping of Banks permitting New York always to be on the Committee as one of the five.

MR. DEARMONT: Would that make it the President in that instance?

MR. ECCLES: That made it the President or the First Vice President in the revamping of the groups as it now exists. That was a modification.

MR. SYMCZAK: The proposed optional reserve plan now before

Congress provides that that power be granted to the Open Market Committee.

MR. JAMES K. VARDAMAN, JR. (Member, Board of Governors): I have been studying the Federal Reserve Act since it was first passed, first as a lawyer and then as an investment banker and a commercial banker and later as a member of this Board. I believe that Mr. Eccles' statement of the operation of this System is by far the most concise, correct, and accurate policy and technical statement I ever have heard made with reference to the System. If he left out anything, he forgot to say we have a Conference of Auditors. Outside of that one detail, he covered this thing from stem to stern and back again in a way that I for one member of the Board want to say is exactly the way I have found this Board to operate. I should like to suggest, if it isn't presumptuous, that this statement should be extracted from the minutes and put in such form that it would be presentable to all directors of all Banks in the System.

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Upon motion duly made and seconded, the Chairmen voted unanimously that the foregoing statement by Governor Eccles be reproduced and sent to them for such distribution as they desired.

Mr. Eccles then said: "I would like to say this. I didn't have the remotest idea that I was to be asked to comment on this question. I had not given two minutes or one minute of previous thought or consideration to what I might say on the subject. So what I said was completely off the cuff, and it was from my heart as I felt and as I see things."