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F E D E R A L R E S E R V E B O A R D

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Statement of Governor Eccles on Title II
of the Banking Act of 1935 as reported
by the Banking and Currency Committee of
the Senate.

Title II of the Banking Bill of 1935 as recommended by the Administration proposed to place responsibility for the exercise of three existing, but badly set up, monetary powers in one body removed from the pressures of partisan, political or private banker influences. Its fundamental purpose was to vest that body with full authority to use these powers in fostering recovery and then in maintaining stability of business and employment. Furthermore, experience over a long period of years had demonstrated the need for various administrative improvements and for the removal of certain hampering restrictions.

As rewritten and reported by the Senate Committee on Banking and Currency, Title II represents a significant and important recognition of the fundamental principles and purposes of the banking bill as proposed. Therefore, I believe that in its most vital respects it is a distinct advance in the direction of centralized responsibility and authority for the exercise of monetary powers.

First, open market powers are concentrated in a central body composed of the entire Federal Reserve Board together with five governors of the reserve banks who must be representative of the various sections of the country. Complete authority is given to this body to initiate and enforce open market operations; whereas, at present the Board has no power either to initiate or enforce, and only the negative power of veto.

Second, the Board is given a broad authority to change reserve requirements of member banks. Under existing law, this power can only be used after the declaration by the President of an emergency every time a change is necessary, for all practical purposes an unworkable arrangement.

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Third, the power to determine and make effective discount rates remains with the Board.

It is evident that this represents a substantial improvement over the existing situation. It would make it possible for the Board and the open market committee to function in the national interest by using these powers so far as they may be effective towards the achievement of stability in our economic system and the avoidance of disastrous inflationary and deflationary cycles. This is a long step in the direction of intelligent management of our monetary system.

Furthermore, the bill as reported by the Senate Committee recognizes the need for broadening and liberalizing the eligibility provisions of existing law which are entirely unsuited to meet present day conditions. Likewise, the real estate loan provisions of the national banking act are substantially improved.

In addition, the Board which now has no voice in the selection of the governors of the reserve banks is given the authority to approve or disapprove of their appointment.

In less fundamental respects I believe that Title II, as reported by the Senate Committee, could and should be improved upon in the interest of practical administration and greater efficiency. As between the bill as enacted by the House and as proposed by the Senate Committee, I have every reason to believe that a reasonably satisfactory measure will be worked out.