

we can from Washington; but I think when it comes to policies that are national in scope, they should be under the ultimate control of some body which represents the public. You may call it a political body if you want to, but that is the way I feel about it.

Senator GLASS. Let me ask you one other question. You say you are in sympathy with the objectives of the bill. Did you have any part in its preparation?

Mr. THOMAS. None.

Senator GLASS. Did you see it until it was sent up here and printed?

Mr. THOMAS. No; I think not. We were meeting the same day on which it was printed and introduced, and we were to have a meeting to consider it, but I think that inadvertently it was introduced without that. But we have discussed it considerably since then.

Senator GLASS. Since then?

Mr. THOMAS. Yes.

(The witness withdrew from the committee table.)

STATEMENT OF M. S. SZYMCAK, MEMBER OF THE FEDERAL RESERVE BOARD, WASHINGTON, D. C.

Mr. SZYMCAK. Mr. Chairman and gentlemen of the committee, it seems essential to preserve our regional Federal Reserve System, which consists of 12 Federal Reserve banks with 9 directors in each bank, together with a Federal Reserve Board in Washington. In this particular respect, our System is different from that of most countries because of our extensive area, and because of our political and economic structure of States and districts, based upon industrial, agricultural, commercial, and financial conditions and needs which are widely different in the various parts of the United States. The System is composed of essential parts. These parts, however, must be cohesives for the best functioning of the System.

To make for an efficient administration of the act by the System and to arrive at the purposes for which the act was passed by Congress, it appears necessary for the Federal Reserve Board to have a more direct contact with the various sections of our extensive area.

To be effective, the whole Federal Reserve System must be one. This end is not difficult to attain; personal contact of the members of the Board with the directors of the 12 Federal Reserve banks seems one of the best direct avenues.

Bank powers of the boards of directors of the 12 Federal Reserve banks should be retained, and in some respects increased and extended, at least by regulation of the Federal Reserve Board.

While of course it is sound to have the Federal Reserve Board and its principal offices in Washington, and while it is sound for the board to hold its meetings in the capital because of the national scope of its considerations, yet it would be desirable from a practical standpoint for the Federal Reserve Board to meet at least four times a year in at least four parts of the country—the East, West, North, and South—to meet with and understand better the directors of the Federal Reserve banks and their officers; as well as the conditions and needs of commerce, industry, agriculture, and finance in the respective districts. It would also seem wise to provide by law that each member of the board should be assigned by the Federal Reserve Board to the task of keeping himself especially familiar with conditions in at least

two of the Federal Reserve districts each year, in order that he might act as a liaison officer between the Federal Reserve banks, their directors and officers, the representatives of commerce, industry, agriculture, and finance on the one hand, and the Federal Reserve Board in Washington on the other hand. Provision could be made to have members of the board rotate in their district assignments, so that eventually each member of the board would have covered by direct contact all of the sections of the country and would know their needs thoroughly. Without this it is next to impossible for the board members to appreciate fully the needs and requirements of the Federal Reserve banks and of the country as a whole; without this the Federal Reserve Board inclines too much to theory and bureaucracy; without this there is bound to be misunderstanding between the Federal Reserve banks and the Federal Reserve Board leading to differences of opinion on authority; and without this a cry is heard on the one hand that the private interests wish to control the system and direct its operations for their own selfish purposes; and that on the other hand political interests wish to control the system and direct its operation in accordance with their own political ambitions.

Members of the Board, when assigned by the Board to several districts, would keep personally in touch with the boards of directors and the officers of the Federal Reserve banks in those districts. They would thus become familiar with the management of such Federal Reserve banks, with their viewpoints, and with the problems of their districts. They would also know men in the industrial, commercial, agricultural and financial fields of the districts. They would not be compelled to depend entirely on the Board's staff for information having to do with the internal management of the banks, as well as with the general agricultural, commercial, industrial, and financial banking conditions of the districts; thus there would be a better opportunity for sound and practical rulings of the Board on all questions when they are presented by the banks to the Federal Reserve Board under the law. It is specifically stated in the act that the Federal Reserve Board has general supervisory responsibilities, but in order to supervise, one must be in direct contact with those supervised. Otherwise, one is compelled to act upon information obtained from other sources.

Of course in all cases the Board, as a whole, would act officially on all these matters, but the Board would have the benefit of the information obtained by the individual member assigned to the specific district.

It would also seem desirable to have the boards of directors of the Federal Reserve banks meet once every year with the Federal Reserve Board in Washington, or, if this could not be accomplished, with the directors who are farther removed from Washington, the Federal Reserve Board could arrange to meet them at a point more accessible at least once every 2 years to discuss frankly and completely matters pertaining to the operation of their banks and the conditions in their districts, as well as problems of a national character.

The execution of many of the powers vested in the Federal Reserve Board could, under the provisions of the Banking Act of 1935, be decentralized under regulations of the Federal Reserve Board so that they could be carried into effect by the Federal Reserve banks without the reference of many individual matters to Washington, and thus

obtain desirable and effective administration. This will be facilitated by the provision in the bill authorizing the Board to delegate its powers to individual members or other representatives.

To make for a constancy and a permanency of the work of the Board by its individual Board members, I recommend that there be a specific requirement in the law that the Board assign its work to individual Board members, each Board member to have a specific task assigned on which he is to specialize and through which he is to keep in touch with the Federal Reserve banks and the country, and on which he is to report to the Federal Reserve Board with recommendations. This seems to me to be very important, from the standpoint of good administration.

It has been my experience that the Federal Reserve Board does not wish to, nor should it, assume any more powers than it can properly use for the effective administration of the System, and whenever powers are granted to the Federal Reserve Board having to do with matters that could be handled better by the directors and officers of the Federal Reserve banks, the Federal Reserve Board should be able to give the 12 Federal Reserve banks the power of determination of many important matters.

It is good organization for the Federal Reserve Board to recognize this fact and to avail itself of the commercial, agricultural, industrial, and financial experience of the directors of the 12 Federal Reserve banks, as well as the technical and banking experience of their officers, who are the vehicles through which the policies of the System are executed.

There are many powers now in the Federal Reserve Board, however, which in my opinion should be placed in the regional Federal Reserve banks. This would expand the authority and responsibility of the directors of each Federal Reserve bank and make for more prompt and efficient administration of the Federal Reserve System. The general supervision should be retained, but the direct and ultimate action in these matters should be taken by the directors and officers of the Federal Reserve banks.

The detailed matters which might be delegated to the Federal Reserve banks (or the Federal Reserve agents, if their offices are not abolished) include the following:

1. Admission of State banks to membership in the Federal Reserve System.
2. Expulsion of such banks from membership for violations of the law or the Board's regulations.
3. Waiver of 6 months' notice of voluntary withdrawal of State banks from membership.
4. The granting of voting permits to holding-company affiliates of member banks.
5. The revocation of voting permits for violations of the law or the regulations.
6. The issuance and revocation of permits authorizing officers, directors, and employees of member banks to serve not more than two other banks (if the provision for individual permits is not repealed as proposed in the bill).
7. The issuance and revocation of permits for officers, directors, and managers of security companies to serve as officers and directors

of member banks (if the provision for individual permits is not repealed as proposed in the bill).

8. The granting of trust powers to national banks.

9. The cancelation of such powers at the request of national banks.

10. Approval of reduction of capital stock by national banks (if the requirement of the Board's approval is not repealed as proposed in the bill).

11. The granting of permission for member banks to invest amounts exceeding their capital stock in bank premises or in the stock of corporations holding their bank premises.

12. The approval of the establishment of branches by State member banks (if this power is transferred from the Comptroller of the Currency as proposed in the bill).

13. Authorizing national banks to establish foreign branches.

14. Authorizing national banks to invest in the stock of banks or corporations principally engaged in international or foreign banking.

15. Permitting interlocking directorates between member banks and foreign banking corporations in which they own stock.

16. Approval of compensation of officers and employees of Federal Reserve banks.

In addition to the above, where action by the Board is required under the law, numerous matters are presented to the Board for consideration in connection with banking supervision and requiring action on individual cases; for example, reductions of capital stock of State member banks, consolidations of State member banks with other banks, and whether or not individual banks should increase the amount of their capital and surplus in relation to their deposit liabilities. In some cases of this character the Board has already authorized the Federal Reserve agents to act on its behalf in the individual cases within certain prescribed limitations.

Some, or perhaps all, of the powers enumerated above, and perhaps others too, it seems to me, should be vested directly and ultimately in the Federal Reserve banks. This would make for efficiency and good relation between the Federal Reserve Board and the Federal Reserve banks. It is quite natural that the Federal Reserve banks know more about that subject matter because they are directly and constantly in contact with it. It is also natural, however, that the Federal Reserve Board should supervise and coordinate and bring to the attention of the Federal Reserve banks any incorrect or improper administration of these powers. This would make for unity.

Therefore, in view of what I have already stated, it seems that the chairman and Federal Reserve agent of the Federal Reserve banks should be retained, because this is consistent with the purposes of the framers of the Federal Reserve Act, namely, that the Board should have an official representative at each Federal Reserve bank to directly supervise the operations of the bank. It seems that in the minds of the framers of the act the chairman was apparently to be the supervisor of the bank as a representative of the Federal Reserve Board. Actually the governor appointed by the board of directors of the bank has been the chief executive. By consolidating the offices of chairman and governor, the governor would be mentioned for the first time in the act, and would be designated as the chief executive of the bank, and since he will also be chairman of the Board,

he will report to himself. At the same time, however, the representative of the Federal Reserve Board at the Federal Reserve banks is eliminated.

Some say that under the pending act the combination of the two positions takes away powers from the directors of the Federal Reserve banks because the Federal Reserve Board would have a veto power over the appointment of the governor and chairman. The fact of the matter is that the chairman and Federal Reserve agent, appointed under the Federal Reserve Act by the Federal Reserve Board, would be eliminated and the directors of the Federal Reserve bank would appoint the governor, and when the governor is approved by the Federal Reserve Board, he would become a class C director. The vice governor, who would also be appointed by the directors of the bank subject to the approval of the Board, might also be appointed a class C director by the Board. This would leave the Federal Reserve Board only one additional class C director for appointment as compared with six class A and B directors elected by the member banks, and two class C directors selected by the board of directors and approved by the Federal Reserve Board.

Here it seems to me we are getting away from what was originally intended by the framers of the Federal Reserve Act, namely, that the chairman of the board, the head of the board of directors of the Federal Reserve bank, be likewise a representative of the Federal Reserve Board, and that the Federal Reserve Board, of itself, and not upon recommendation of the class A and B directors, appoint three directors of the nine at each Federal Reserve bank.

Also by having the Governor feel that his appointment rests with both the directors of the bank and the Federal Reserve Board, we divide responsibility, and, therefore, we divide authority over the chief executive officer. This places the Governor in a dual position. This is another reason why I should prefer to have the chairman and Federal Reserve agent retained.

An effective relationship between the directors of the regional banks and the Federal Reserve Board in Washington can be accomplished if individual members of the Board are each assigned several Federal Reserve districts with which they must keep constantly in touch, especially on matters affecting the relation between the Board and the banks.

Proper assignments of districts among the Board members should be directed by law. This might be done by some modification of the proposed amendment authorizing the Board to assign specific duties and functions to designated members of the Board or its representatives.

I agree with the recommendations made by Dr. Miller, with some modifications, with reference to making the Board further independent, except that I feel that the chairman and vice chairman of the Board should be designated by the President.

At the present time the President designates the Governor of the Board without the advice and consent of the Senate.

His term as a board member should not expire with the expiration of his term as chairman. The Secretary of the Treasury should continue as ex officio member, but not as chairman of the Board. The Comptroller of the Currency should be continued on the Board as an ex officio member. Both the Secretary of the Treasury and the

Comptroller of the Currency should have no vote on the Open Market Committee.

Under the bill, authority for open market policy is taken away from the Federal Reserve Board and the directors of the Federal Reserve banks, and the governors, and is placed in a committee of five, a majority of whom are members of the Federal Reserve Board.

It would seem that a better method would be to have the governors make recommendations on open market policies. However, actual determination of what these open market policies should be seems to be a national and not a local question. Therefore authority should be vested in the Federal Reserve Board. The Board should receive information from the Federal Reserve banks and should not act until after it has received proper advice and guidance from the Federal Reserve Bank directors through their governors. Power should be granted to these directors, if they object to open market policies, to make objections to the Federal Reserve Board in writing, and opportunity should be provided for hearings before the Federal Reserve Board, but final determination of policies in any case should be with the Federal Reserve Board.

I understand that Governor Eccles has made a recommendation to this effect. I should, however, like to suggest that all 12 of the governors constitute the committee to advise the Board on open market policies. They should be allowed to choose any method of procedure they think best.

It is generally assumed that the Federal Reserve Board is responsible for open-market policies. Few people, even today, are aware of the fact that the present open-market committee consists of 12 men who represent the 12 Federal Reserve banks, and that the Federal Reserve Board merely approves or disapproves, but does not initiate open-market policies. Few people also realize that each Federal Reserve Board has the right to refuse to participate in an open-market operation after it has been adopted by the 12 Governors and approved by the Federal Reserve Board. It may be contended that the Federal Reserve Board should not have this power because it is in Washington, the Government's capital, and because its members are appointed by the President with the advice and consent of the Senate. It may be said that political pressure might be used against the Board and that the Board might be influenced by such pressure in its monetary control. On the other hand, it is argued that the Governors are appointed by the directors of the Federal Reserve banks, six of whom are elected by member banks—private interests—and that such Governors may be guided in determining open-market policies by the private interests of the member banks, and not by national needs and requirements of the country. Both views are most extreme.

Authority must be vested where responsibility rests. That is logical. With 3 of the members of the open-market committee consisting of Federal Reserve Board members and 2 of Federal Reserve bank governors, the open-market committee would be construed to be the Federal Reserve Board without the Board actually having any authority over open-market operations. But since open-market policy is a national question, authority as well as responsibility for this policy should be located in one place, and in the Federal Reserve Board, which is a national body.

Senator GLASS. Whence are the funds used in open-market operations derived?

Mr. SZYMCAK. From the member banks. I come to that point later, Senator.

Senator GLASS. Proceed.

Mr. SZYMCAK. This seems to be in the essence of the purposes of a Federal Reserve Board. This seems to be the surest way of establishing the fact whether the System or the Board is, or is not, functioning in accordance with the purposes for which it was created. It removes the opportunity for excuses.

Of course, the Board would feel that its own research organization should be extended and strengthened and given more active functions to perform and the membership of the Board would feel the need of keeping more closely in touch with current developments which might affect open-market policy and the interpretation thereof, but the Board would be in far better position to determine when and in what circumstances to initiate an open-market policy on the basis of a coordinated view of all the factors entering into the monetary situation—reserve requirements, discount rates, lendings of member banks, the Government's fiscal policies, etc.—and could take action promptly on its own responsibility in whatever direction seemed best to meet the needs of the situation at the time. However, to make the parts of the System more cohesive a provision might be made for a sufficient representation of the regional banks on this committee for the sake of unity in the System so long as the tendency is in the direction of making the System one and not two.

In the interest of unity, the Open Market Committee might consist of the 6 appointive members of the Board and 5 Governors—the 5 Governors to be designated by the 12 Governors of the 12 Federal Reserve banks and to be chosen from five sections of the country, namely, the North, South, East, Middle West, and the Far West. While the Secretary of the Treasury and the Comptroller of the Currency might continue as members of the Board they should have no vote on Open Market Committee policies. Their membership on the Federal Reserve Board is valuable in many respects, but the Act might provide that they have no power of a vote on open market operations, but might be called by the Open Market Committee for information that the committee might wish to have in the consideration of adopting open market policies.

I also recommend the striking out of the following words from the suggested amendment on the objective of the System:

As to promote conditions conducive to business stability.

I agree with Dr. Miller also with slight amendment, that the offered amendment on eligibility of discounts be amended to read as follows:

“Notwithstanding any other provision of law, when it deems it in the public interest, a Federal Reserve bank may recommend, and by an affirmative vote of not less than five of its appointive members, the Federal Reserve Board may authorize any Federal Reserve bank, for limited periods to be recommended by the Federal Reserve bank and prescribed by the Board, but which may be extended by the Board from time to time upon application of the Federal Reserve bank, to make advances to member banks which have no further eligible and acceptable assets available to enable them to obtain adequate credit accommodations through rediscounting at the Federal Reserve bank or by any other method provided by this act. Such advances may be made on the promissory notes of

such member banks secured to the satisfaction of the Federal Reserve bank, and shall be subject to such regulations and shall bear such rates of interest as may be prescribed from time to time by the Federal Reserve Board upon recommendation of the Federal Reserve bank."

My recommendation places in the Federal Reserve banks the power of making the request.

Of course, I can understand that this Banking Act offers much opportunity for extreme interpretation. However, with the amendments offered, it seems to me to meet existing conditions and to serve a definite purpose without being extreme in either direction. It deserves at least having each section considered on its merits. It seems to serve the definite purpose of a better administration of the Federal Reserve Act.

Senator GLASS. Did you have any part in the preparation of this bill?

Mr. SZYMCAK. No, sir.

Senator GLASS. Did you see it until it was printed?

Mr. SZYMCAK. No. I saw certain parts of it from time to time, but I did not see it as a whole until it was printed.

Senator GLASS. I note that in March 1932 Governor Eugene Meyer suggested, with respect to membership on the Board of the Secretary of the Treasury and the Comptroller of the Currency, that it might be well to permit them to be continued as ex-officio members without vote.

Mr. SZYMCAK. I did not know that he made that recommendation.

Senator GLASS. I note that you have, in a modified form, made the same recommendation.

Mr. SZYMCAK. Yes, sir.

Senator GLASS. What is your reaction to the suggestion of Dr. Miller that the Federal Reserve Board be constituted a board of governors of the Federal Reserve System?

Mr. SZYMCAK. I think that is very sound. I think the suggestion is a very good one.

Senator GLASS. We are very much obliged to you, sir.

(The witness withdrew from the committee table.)

Senator GLASS. Is there any other banker here from Texas who desires to be heard? (No response.)

Senator COUZENS. I move that the hearings be closed.

Senator GLASS (after conferring with members of the subcommittee). The committee has determined to close the hearings, there being nobody representing groups of people who seem to desire to be heard. So that we will close the hearings for the present, and I think finally.

Mr. CZERWONKY. Senator Glass, would you like to hear from an engineer? I have some information here that is vital on this bill, and I want to have an opportunity to put it into the record or present it before the committee.

Senator GLASS. You may present it for the record, and if the committee deems it of the same importance you think it is, it will agree to put it in the record.

Mr. CZERWONKY. I would surely appreciate it. It would take about half an hour. I think it would change the opinion of some of the members of the committee. This is an engineering and scientific approach to the problem.