

Statement of
Harry A. Shuford
President, Federal Reserve Bank of St. Louis
before the
Subcommittee on Domestic Finance
of the
Committee on Banking and Currency
House of Representatives

January 29, 1964

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before the Committee and to comment on some phases of the Federal Reserve System which are under consideration. I shall not undertake to cover all the specific provisions of the bills before the Committee, but would like to refer to several points.

The power over money is, of course, vested with the Congress of the United States. Under our System, money includes not only currency and coin but bank reserves and deposits. Due to the heavy responsibilities of the Congress and to the technical and complicated nature of monetary administration, Congress has found it desirable to delegate the responsibility for formulating and implementing monetary policy to others in order that the many factors and considerations involved may be followed closely week by week and day by day. In making the delegation Congress has created and developed the Federal Reserve System which is a governmental institution with responsibility to exercise judgment regarding monetary matters.

It is constructive for institutions to be reviewed from time to time and for changes to be made when found to be necessary. The Federal Reserve System was created 50 years ago, and during the years since has properly been under repeated review by Congress, private organizations, and the System itself. Many constructive changes have been made. Through it all, the principle of independence of judgment for determining an appropriate amount of money in the economy has been adhered to and, at times, strengthened.

I regard as sound the policy of delegating monetary responsibilities to an instrumentality which is accountable only to Congress and separated from the Treasury.

The Reserve Banks, as instruments of the Federal Government, operate under the authority of Congress with their powers, duties, and responsibilities provided for by law. While member banks are required to pay in capital to the Reserve Banks, they do not own stock in the usual sense of the word as it applies to private corporations. The member banks do not control the Reserve Banks or set their policies. They do not share in the earnings above the statutory limitation and they have no claim on the assets.

Member banks do, through the method prescribed by law, elect six directors of a Reserve Bank, three of whom are bankers. The other three directors are appointed by the Board of Governors; one of these is named Chairman and another Vice Chairman, each for a one-year term. In my experience, the directors are able and competent men of high character. They come from varied walks of life and bring to the Banks valuable experience and informed judgment. They make important contributions, not only in the formulation of audit, budget, personnel and operating policies, but in the presentation of grass root information with respect to economic and financial conditions in various sections of the country. In carrying out their responsibilities as directors, I have found that these men act in the general interest and without regard to who elected them.

While the Reserve Banks are expected to exercise judgment and initiative in carrying out their responsibilities, they are subject to general supervision. The Board of Governors must approve the appointment of the President and First Vice President and the salaries of all officers of the Banks. In addition, it coordinates the activities of the Banks and examines each of them annually. The supervision and coordination includes the issuance of uniform operating instructions and letters of interpretation of regulations. The Board must also approve each Bank's budget.

The examinations of the Federal Reserve Banks cover all phases of operations and are made by a staff which answers only to the Board. In addition to these examinations, the resident auditor at each Federal Reserve Bank and a staff under his supervision conduct continuing audits of operations. In performing his functions and duties the auditor answers only to the directors of the Bank through an Audit Review Committee and the Chairman of the Board. I think that the present structure and control of Federal Reserve Banks provide a desirable and effective blending of the national and regional. There is strong control by the Board in Washington. There is benefit from the knowledge and judgment of the local Boards of Directors.

The composition of the Federal Open Market Committee is an important matter in view of the vital functions which the Committee performs. I believe the present arrangement for five of the Federal Reserve

Bank Presidents to serve as members of the Committee is a desirable one. In serving on the Committee, the Presidents fully recognize that they are public servants performing a governmental function. Their commitment is supported by the usual public oath.

They, with their Research Staffs, study the economic and financial conditions in their particular districts as well as in the nation. As members of the Committee they formulate their independent views and conclusions. This arrangement has permitted determination of monetary policy upon a basis of views centered in Washington but, in an important measure, coming from various sections of the country. This has facilitated close contact with current and developing grass root trends.

The present structure and composition of the Open Market Committee has worked especially well since the procedure was changed to enable all the Presidents of the banks to participate in the meetings of the Committee.

I would favor a continuation of the present Open Market arrangement.