OMINATION OF SHERMAN J. MAISEL

HEARING

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

THE NOMINATION OF SHERMAN J. MAISEL TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

APRIL 15, 1965

Printed for the use of the Committee on Banking and Currency

U.S. GOVERNMENT PRINTING OFFICE

46-538 WASHINGTON : 1965

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NOMINATION OF SHERMAN J. MAISEL

THURSDAY, APRIL 15, 1965

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 9:30 a.m., in room 5302, New Senate Office Building, Senator A. Willis Robertson, chairman, presiding.

Present: Senators Robertson, Douglas, Proxmire, Bennett, and Thurmond.

The CHAIRMAN. The committee will come to order.

This morning, we have the nomination of Sherman J. Maisel to be a member of the Board of Governors of the Federal Reserve System for the unexpired term of 14 years from February 1, 1958. Dr. Maisel was born July 8, 1918, at Buffalo, N.Y. He is married to Lucy Cowdin and they have two children. His residence is in Berkeley, Calif.

Education: Diploma, the Nichols School, Buffalo, N.Y., 1935; bachelor of arts, magna cum laude, Phi Beta Kappa, Harvard College, 1939; intern, National Institute of Public Affairs, 1939–40; graduate, U.S. Command and General Staff School, Fort Leavenworth, Kans., 1943; master of public administration, Harvard University, 1947; master of arts, in economics, Harvard University, 1948; doctor of philosophy, in economics, Harvard University, 1949; fellow, Fund for Advancement of Education, 1952–53; fellow, Institute of Basic Mathematics, with application to business, 1959–60.

Experience: 1939–41, economist, Board of Governors of the Federal Reserve System; 1941–45, U.S. Army, private to captain; 1945–46, economist and Foreign Service Reserve officer, U.S. Department of State; 1947–48, teaching fellow, Harvard University; 1948–65, from assistant professor to professor of business administration, University of California in Berkeley; concurrently research associate and rotating chairman, Center for Real Estate and Urban Economics; also, economic consultant to industry and public bodies on problems of forecasting and finance; director, Consumers' Cooperative of Berkeley.

Civic service: Vice president, Berkeley Unified School District. Member, City of Berkeley Planning Commission; urban renewal committee; city-university liaison committee; advisory committee on capital improvements; advisory committees to Federal Housing Administration; U.S. Bureau of the Census; State of California; Ford Foundation; Social Science Research Council.

Publications: "Financing Real Estate," 1965; "Fluctuations, Growth, and Forecasting," 1957; "Housebuilding in Transition," 1953; plus 30 or more monographs and articles.

Memberships: American Economic Association; American Statistical Association; Econometric Society; Regional Science Association.

Dr. Maisel, we are very pleased to have you before us. I see you have written a book. There is an old saying, "Oh, that mine enemy had written a book." When we get a college professor and find out he has written a book, we can find out just what his thinking is when he is speaking, as we say in the mountains, in his native tongue.

You have been teaching economics.

Mr. MAISEL. Yes, sir.

The CHAIRMAN. Do your teachings and writings cover practices and policies of commercial banks?

Mr. MAISEL. No, they cover monetary policy, not the field of money and banking specifically.

The CHAIRMAN. Do they cover general monetary policies of the Federal Reserve?

Mr. MAISEL. Yes.

The CHAIRMAN. Do they cover selective credit regulations, for example, mortgage credit, consumer credit, stock market credit?

Mr. MAISEL. Yes, Sir.

The CHAIRMAN. Do they cover problems relating to banking organization and structure, such as branch banking, bank holding companies, mergers?

Mr. MAISEL. No.

The CHAIRMAN. Do you have any fixed views as to changes that might be desirable in laws or regulations or official policies in any of the above-mentioned areas?

Mr. MAISEL. No, my training is in analysis. I have no fixed views on these matters.

The CHAIRMAN. Do you assume this position with an open mind on the various matters mentioned?

Mr. MAISEL. Yes.

The CHAIRMAN. What are your views as to the independence of the Federal Reserve in determining policies relating to credit availability and interest rates with respect to the President?

Mr. MAISEL. My obligations are to follow my own opinions and beliefs. I think this conforms to the basic theory of the Federal Reserve System. I would follow my own thinking. Members of the Board should make their own personal judgments.

The CHAIRMAN. Some years ago we had to finance a lot of bonds and the then Secretary of the Treasury wanted to finance some at a low rate of interest. He put great pressure on the Federal Reserve Board and finally the Board rebelled. They said, "We are not going to buy any more bonds at that rate of interest; it is not sound." So there was a fight over the issue. As a result, the independence of the Federal Reserve Board was preserved and one of the members of our committee was a leader in the fight to preserve that. That was the Senator from Illinois, Senator Douglas. He would be gratified to hear you say this. When it comes to the final analysis, on this Board you are going to study the facts given to you and you will make decisions on the merits of the facts and you do not intend to yield that position to the President or to the Secretary of the Treasury. If you do not agree you can say, "You put me in and you can ask me to resign, but you cannot make me violate my conscience." Is that your position?

Mr. MAISEL. Yes, sir.

The CHAIRMAN. The President's message relative to the balance of payments on February 10, 1965, contains the following:

> I am confident that the Federal Reserve, in carrying out its responsibilities for monetary policy, will continue its efforts to maintain short-term rates of return in the American money market. The Treasury will fully cooperate. At the same time—and in view of the heavy flow of private savings into our capital markets—I expect the continuation of essential stability in interest rates.

This is what the President said last month. If, despite conscientious efforts under the voluntary programs, funds continue to flow abroad and the U.S. gold reserve declines substantially, do you think Federal Reserve policies should be restricted in the way this statement indicates?

Mr. MAISEL. I assume the function of the Board is to study those matters. As an economist, I feel that these matters are relative. The proper decision should be made relative to the situation as it exists at a given time. For this reason, the Board must examine the changing situation and make the proper decision relative to the particular time. I hope to be able to aid in making proper decisions.

The CHAIRMAN. Maybe I can help you shorten this answer. The President said about the balance of payments, "I expect continuation of the present interest rates." There has been an easing up on the gold, but President de Gaulle keeps threatening what he is going to do. He keeps threatening to exchange his dollars for gold. Even if he did this, if he would also pay us the $6 billion France owes us from World War I, we would balance our payments.

With great reluctance the Federal Reserve Board endorsed the proposal to remove the 25-percent cover on deposits. The Federal Reserve stated they want to keep it on Federal Reserve notes for psychological reasons. We don't know but what we may be faced in the very near future with a balance-of-payments problem involving a drain of several billion dollars against less than $2 billion of free gold under the previous law. The Federal Reserve Board is very much of the opinion that to prevent that it may be absolutely essential to let interest rates rise in carrying out their delegated power to maintain the value of money. And if the President says, "I don't want you to do it." What are you going to do then as a member of the Board? Are you going to say, "Well, Mr. President, I think it ought to be done, but I'm your man and I'm going to carry out what you tell me to do. Or, are you going to vote your conscientious conviction on the basis of the testimony before you?

Mr. MAISEL. I think I would have to vote my conscientious feelings at that point as I see the situation.

The CHAIRMAN. In his latest Economic Report, the President said:

> "* * * an expansionary monetary policy will be tempered by the urgency of our balance-of-payments problem. But * * * monetary and debt management policies can serve * * * to accommodate the credit needs of a noninflationary expansion * * *. Monetary policy must be free of arbitrary restriction. It must be prepared to move quickly—
>
> if excessive demand should threaten inflation,
>
> if an outflow of liquid funds should unexpectedly worsen our balance of payments.

Do you think the Federal Reserve System can effectively function under these guides?

Mr. MAISEL. Yes, sir; that seems like a reasonable prescription.

The CHAIRMAN. In its latest report, the Council of Economic Advisers states in effect that spending for major durable goods—new housing, business plant and equipment, automobiles, and major household goods—is likely to depend in part upon the availability of credit and its cost. Do you think monetary policies should be directed specifically toward stimulating demands of this nature or should it be concerned principally with maintaining a volume of money that satisfies the public's need for liquidity?

Mr. MAISEL. I think they are very closely related. The problem of satisfying the public's liquidity needs is very closely related to that of insuring that we have adequate demand in the country. I certainly feel that the Board should cooperate in every way, that the function of monetary policy is to insure that we have a stable price level with the fullest possible demand.

The CHAIRMAN. In deference, Doctor, your answer is not quite 100 percent responsive. The question is, Do you think you should use your power to stimulate demand for the type of goods I mentioned here?

Mr. MAISEL. If there is unemployment in the country, if there is overcapacity and if it is not inflationary, I believe that the proper use of monetary policy would be to insure the objectives stated by the Employment Act of 1946; that is, maximum employment, maximum purchasing power, and maximum production.

The CHAIRMAN. Then I understand that you would, as a member of the Board, seek to go beyond the general program of providing enough money to do the money work of the Nation and you would use your power to influence our production, employment, and use your discretion to stimulate the sale of automobiles and major household goods and, let us say, to produce a boom. Is that your position?

Mr. MAISEL. I am afraid my reply may sound unresponsive, but I can only say that is a very complex question. Frankly, while I could spend five lectures on giving a complete answer, I can't put it in two words. The clear answer is that the amount of money in the economy does affect the amount of purchases of these goods; it also affects the price level, and many other points. It seems to me that the position of the Board must be that it takes all of those factors into account.

As a Member of the Board, I certainly would not want to close any part of my mind to some of the necessary relationships that I believe exist in the economy.

The CHAIRMAN. Well, I can understand why on a question of this kind, you would rather paint the picture in gray rather than in black and white, so I won't press any further.

In the record of policy actions of the Federal Open Market Committee for its last meeting in 1964, the majority of the committee concluded that "for the time being open market operations should continue to be directed primarily at maintaining stable money market conditions."

Some members, it was stated, while agreeing with the majority view, expressed continued concern about the persistent balance-of-payments deficit and recent growth rates in bank credit and the money supply.

One member dissented on the grounds that current money market conditions were easier than justified by immediate or prospective developments, and he favored a more restrictive credit policy.

Would you be prepared to express an opinion regarding these different views

Mr. MAISEL. No, sir; I would not. Until I sat on the Board, I don't think I would have the necessary information to express an opinion at this time.

The CHAIRMAN. The Senator from Illinois?

Senator DOUGLAS. No questions.

The CHAIRMAN. The Senator from Utah.

Senator BENNETT. Dr. Maisel, what is your general view with respect to the deficits in the balance of payments. Do you think this is a good thing and we should continue it as a matter of policy or should we attempt to bring it into balance?

Mr. MAISEL. Sir, I think this is a question of the national objectives. Certainly, it has to come into balance at some point. How soon it has to come into balance, I think, is a matter of national policy. There are certain objectives we have been achieving by allowing the deficit to run as it has. We can't continue to do that indefinitely, but I would certainly feel it is a basic question of policy as to how rapidly the deficit should be ended. Again, I think this is a relative matter. One shouldn't say that it ought to end on a given day or even in a given year. We should move, as I hope we are and as I believe we are moving, to end the deficit as rapidly as possible. I think this would be my general position.

Senator BENNETT. Don't you think the continued outflow of gold and the fact that we have now had to take a step to free some of the gold that previously we thought was sacred indicates that the day is moving closer?

Mr. MAISEL. Yes, but we have been taking much more active steps to try and halt the deficit, too. I gather at least from the press—I obviously don't have any inside information—that the more drastic steps taken in recent months have been a good deal more successful.

Senator BENNETT. These steps are all based on voluntary cooperation.

Mr. MAISEL. Yes, sir.

Senator BENNETT. And in many respects, they are against the interests of the cooperators so, in my opinion, we can't expect that to be a long-range, permanent solution to the problem. That leads me to my next question. If it becomes necessary to use monetary policy to further this national policy of bringing our international payments into balance, would you resist it? You are going on the Board of the Federal Reserve that would have to face the responsibility and this means a change in the interest rate situation if it becomes necessary to use monetary policy. Would you resist it?

Mr. MAISEL. No, my feeling, which I hope I have expressed, is that monetary policy is part of our total package of policies that must be used to reach our national objectives. I certainly feel in terms of our total foreign spending program and other policies having to do with foreign exchange that monetary policy should be used as a basic part of overall policies. If we needed to use monetary policy in relationship to our total program, certainly, it is there to be used for that purpose and for others.

Senator BENNETT. Do you think domestic credit is overextended or is it underextended or is it about right, thinking in terms of private credit as well as Government credit? You answered Senator Robertson by saying that you had to look at every credit problem at the time. Now I think in the position you are going to take, you have to look at credit problems in terms of their effect on the future and not simply to get by today's problems.

Mr. MAISEL. Yes, sir.

Senator BENNETT. Looking at our current credit situation, our current domestic and foreign liquidity situation, do you think we have too much or too little?

Mr. MAISEL. It seems to me it is about right at the moment. Again, I haven't really had the time to study the inner workings of the system to that extent, but in terms of the overall effects upon the economy, it seems to me we have been successful at the moment.

Senator BENNETT. Some of the advance information that has come to us about your past expressions have suggested the application of the word "underconsumptionist" as your economic philosophy. Is this a misinterpretation?

Mr. MAISEL. I certainly feel it is. I would never apply that term to myself.

Senator BENNETT. And you don't think that in order to step up consumption in this country and try and mop up the unemployment by that method, that we should radically increase the supply of domestic credit that is now available?

Mr. MAISEL. No, sir. That would be a concept in which basically consumption was thought of as the only way to increase demand. That would be very foreign to my thinking. I am very conscious of the government and the investment sector as creators of demand. Certainly in anything I have written, I have given equal stress or even more stress to the other sectors than I have to consumption.

Senator BENNETT. Thank you very much, Mr. Chairman. I have no further questions.

Senator DOUGLAS (presiding). Senator Proxmire.

Senator PROXMIRE. I am delighted to see Dr. Maisel here. I think it is a splendid appointment by President Johnson. Dr. Maisel and I were classmates at Harvard Graduate School back in 1947–48. We were both teaching fellows. He was a teaching fellow in economics and I was a teaching fellow in government. He was a brilliant scholar. I have followed his career. He has done an outstanding job as an economist and as an author. His educational background and academic attainments particularly qualify him for this appointment.

I would like to ask a couple of questions. You replied, Dr. Maisel, in answer to the chairman, in the event of a conflict between the President's position and the position of some of the members of the Federal Reserve Board, that you would vote your conscientious convictions; you would vote independently what you thought was right rather than accept the President's view if it contradicted what your judgment was. Is it not true that one very important element in making such a judgment, however, would be the fact that the President, after consultation with his advisers, has come to a conclusion that we ought to follow perhaps an easier monetary policy and, as you said earlier, the need for a coordinated economic policy is paramount. In other words, doesn't it seem to you that one factor in making a judgment is that we shouldn't have a fiscal policy going one way and a monetary policy going another way?

Mr. MAISEL. I think that is perfectly correct. Also, I would say, and I'm sure you would agree that the degree, to which it is necessary to use monetary policy will depend upon the fiscal policy at the existing time. They have to be coordinated.

Senator PROXMIRE. Well, this brings me to my other principal question. It has always struck me as a tragedy that we haven't achieved a greater degree of coördination on economic policy than we have. When the Congress decided to cut taxes, I voted against the tax cut. I was in the minority. I did so because I thought the timing was bad. It just seemed to me to be ridiculous to reduce taxes deliberately when undoubtedly we would have an unbalanced budget, for the purpose of stimulating demand and reducing unemployment and, at the same time, having many advocates who followed a policy of monetary restrictions. But many advocated that. I take it, this is a part of your thinking, too, that you would feel if we are going to have an effective economic policy to stimulate demand, you can't really have a monetary policy trying to do one thing, that is, restrain demand to inhibit inflation, while having a tax policy which tries to stimulate demand.

Mr. MAISEL. No; I think they have to be coordinated or certainly should be.

Senator PROXMIRE. The other thing I had in mind is a little different. I am sure there is no problem in your case, but have you filed with the committee any report as to your financial holdings, or do you feel you have any holdings that might conflict with your duties as a member of the Federal Reserve Board?

Mr. MAISEL. No, my holdings are modest. I have handled them through an investment adviser. I discussed this problem with him when the President announced he was going to send my nomination to the Senate. I held at that time two or three bank stocks. I requested that he sell them, and I believe they have since been sold. I have been out of the country so I am not certain. I haven't received any confirmations but I certainly did look into that and I intend to look into it further. I certainly would not hold any stocks that in any way would conflict with my position on the Board.

I also intend, as I have mainly done in the past, to turn over my general investment portfolio to an investment adviser and ask him to make the decisions. Actually, in the past, I have done this for certain things and not for others. I trust his judgment as much as I would trust my own. I feel that he can operate under very general instructions; namely, to make certain that he doesn't do anything that would bring me into any type of conflict of interest and also that he does not speculate but simply buys and sells stocks occasionally as necessary to meet my general investment requirements. My thought has been that I would go along holding some stocks as in the past. As a believer in diversification, I have put about a third of my assets in common stocks. I feel that this makes sense. I would plan to continue along those lines, making certain that they do not in any way conflict with my position on the Board. I would make certain that my holdings were not in a margin account, that they were in a general investment account for investment purposes only.

Senator PROXMIRE. You would be sure that your money wouldn't be invested in bank stocks?

Mr. MAISEL. Would not be; yes.

Senator PROXMIRE. Thank you, Mr. Chairman.

Senator DOUGLAS. Senator Thurmond?

Senator THURMOND. Thank you, Mr. Chairman.

I am very much concerned about the trend our Government is taking and has been taking for a number of years now in going in debt. I believe the record shows we have gone into debt about 29 years out of the last 35 years. Are you of the philosophy we can just spend, spend, and spend and keep going in debt or are you of the philosophy that we ought to balance the budget except in time of war or emergency or some reasonable excuse that would cause us to have a deficit?

Mr. MAISEL. I think there would be two differences here. One, as a member of the Board, I would not be basically concerned with fiscal policy. My own general attitude from my previous writings has been, as I explained to Chairman Robertson, that we have to be concerned with particular matters relative to the given time. There are certain times when there has been a great deal of unemployment and so on in the economy at those times, I have favored the Government using its basic spending authority to try and raise demand, just as I have favored the Government using its authority in military affairs and so on. On the other hand, when we have had too much demand, I have advocated the Government trying to cut down on the amount of purchasing power in the economy.

Senator THURMOND. As you know, right now, I believe we have the largest per capita income in the history of this country and the unemployment is not at a very high rate. Yet we are still going in debt. If we can't balance our budget when we have the largest gross national product, the largest per capita income, business and industry humming at the greatest speed it ever has in the history of this Nation, if we can't balance our debt now, when can we?

Mr. MAISEL. I assume that we are in the process of it. As I say, I haven't tried to forecast it. I have looked at the President's Economic Report and other forecasters on the assumption that we will balance the budget with time. Our unemployment rate has been falling, but I believe the President's policy and the spending policy of Congress have basically been proper. It seems to me that they have been successful in recent years in determining a proper policy.

Senator THURMOND. They have been successful in following the policies to put us in debt every year. That is the point I am making, that 29 of the last 35 years we have been in debt. Now, is it your opinion we ought to continue along that line or should we try to balance this budget? I think the answer to this question concerns your fitness for the other position to which you have been appointed.

Mr. MAISEL. As I say, sir; that is not basically a policy of the Federal Reserve Board. That is the President's policy, also that of the Congress and the Budget Bureau. I feel that the idea that we should balance the budget when we are prosperous certainly is a very reasonable idea.

Senator THURMOND. That is all, Mr. Chairman, thank you.

Senator DOUGLAS. Mr. Maisel, we are very glad to have had you here. We are going to go into executive session in a few minutes to consider your nomination which I strongly support.

I appreciate your coming here very much.

Mr. MAISEL. Thank you.

Senator DOUGLAS. We will recess for a few minutes and then go into executive session.

Senator PROXMIRE. I came here this morning although this is the opening day of the Braves in Milwaukee and it may be the last opening day we will ever have. I came here in spite of that because I have such a very high regard for Dr. Maisel.

He is a splendid economist and a good friend and I certainly feel the committee is going to give this nomination enthusiastic support.

Mr. MAISEL. Thank you very much, Senator. I am sorry you had to make that deep sacrifice for me.

Senator PROXMIRE. It was worth it.

Senator BENNETT. After the game is over, he may feel better.

Senator DOUGLAS. We will stand in recess.

(Thereupon, at 10:09 a.m., the committee recessed to go into executive session.)

(The following excerpts outline the authority and responsibilities of the Federal Reserve Board:)

FEDERAL RESERVE ACT

SEC. 10. The Board of Governors of the Federal Reserve System (hereinafter referred to as the "Board") shall be composed of seven members, to be appointed by the President, by and with the advice and consent of the Senate, after the date of enactment of the Banking Act of 1935, for terms of fourteen years except as hereinafter provided, but each appointive member of the Federal Reserve Board in office on such date shall continue to serve as a member of the Board until February 1, 1936, and the Secretary of the Treasury and the Comptroller of the Currency shall continue to serve as members of the Board until February 1, 1936. In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. The members of the Board shall devote their entire time to the business of the Board and shall each receive an annual salary of $15,000,[1] payable monthly, together with actual necessary traveling expenses.

* * * * * * *

The members of the Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office on the date of enactment of the Banking Act of 1935, the President shall fix the term of the successor to such member at not to exceed fourteen years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one member in any two-year period, and thereafter each member shall hold office for a term of fourteen years from the expiration of the term of his predecessor, unless sooner removed for cause by the President. Of the persons thus appointed, one shall be designated by the President as chairman and one as vice chairman of the Board, to serve as such for a term of four years. The chairman of the Board, subject to its supervision, shall be its active executive officer. Each member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified. Any person appointed as a member of the Board after the date of enactment of the Banking Act of 1935 shall not be eligible for reappointment as such member after he shall have served a full term of fourteen years.

[1] The Federal Executive Salary Act of 1964 fixed the salary of the Chairman at $30,000 and the salaries of other Board members at $28,500.

(In the determination of policies, the Board and the Open Market Committee are guided by the policy declaration in the Employment Act of 1946, which follows:)

POLICY DECLARATION IN EMPLOYMENT ACT OF 1946

Act of February 20, 1946 (60 Stat. 23)

SEC. 2. The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.

[From U.S. Government Organization Manual]

Creation and authority.—The Federal Reserve System was established pursuant to authority contained in the act of December 23, 1913, known as the Federal Reserve Act (38 Stat. 251; 12 U.S.C. 221).

Purpose.—As stated in the preamble, the purposes of the act are "to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Organization.—The System comprises the Board of Governors; the Federal Open Market Committee; the 12 Federal Reserve banks and their 24 branches situated in different sections of the United States; the Federal Advisory Council; and the member banks, which include all national banks in the 50 States of the United States and such State banks and trust companies as have voluntarily applied to the Board of Governors for membership and have been admitted to the System.

BOARD OF GOVERNORS

Broad supervisory powers are vested in the Board of Governors, which has its offices in Washington. The Board is composed of seven members appointed by the President by and with the advice and consent of the Senate. In selecting these seven members the President is required to have due regard to a fair representation of financial, agricultural, industrial, and commercial interests, and the geographical divisions of the country. No two members may be from the same Federal Reserve district. The Chairman of the Board of Governors is by statute a member of the National Advisory Council on International Monetary and Financial Problems.

The Board determines general monetary, credit, and operating policies for the System as a whole and formulates the rules and regulations necessary to carry out the purposes of the Federal Reserve Act. The Board's principal duties consist of exerting an influence over credit conditions and supervising the Federal Reserve banks and member banks.

Power to influence credit conditions.—The Board is given the power, within statutory limitations and in order to prevent injurious credit expansion or contraction, to change the requirements concerning reserves to be maintained by member banks against deposits. Another important instrument of credit control is found in open market operations. The members of the Board of Governors are also members of the Federal Open Market Committee, whose work and organization are described below. The Board of Governors reviews and determines the discount rates charged by the Federal Reserve banks on their discounts and advances. For the purpose of preventing excessive use of credit for the purchase or carrying of securities, the Board is authorized to regulate the amount of credit that may be initially extended and subsequently maintained on any security (with certain exceptions) registered on a national securities exchange.

Pursuant to the provisions of the Defense Production Act of 1950 (64 Stat. 798, as amended; 50 U.S.C. App. 2091 et seq.) and Executive Order 10480 of August 14, 1953, the Board prescribes regulations under which the Federal Reserve banks act as fiscal agents of certain Government departments and agencies in guaranteeing loans made by banks and other private financing institutions to finance contracts for the procurement of materials or services which the guaranteeing agencies consider necessary for the national defense.

Supervision of Federal Reserve banks.—The Board is authorized to make examinations of the Federal Reserve banks, to require statements and reports from such banks, to supervise the issue and retirement of Federal Reserve notes, to require the establishment of discontinuance of branches of Reserve banks, and to exercise supervision over all relationships and transactions of those banks with foreign banks or bankers. The Board of Governors reviews and follows the examination and supervisory activities of the Federal Reserve banks with a view to furthering coordination of policies and practices.

Supervision of member banks.—The Board has jurisdiction over the admission of State banks and trust companies to membership in the Federal Reserve System, the termination of membership of such banks, the establishment of branches by such banks, and the approval of bank mergers and consolidations where the resulting institution will be a State member bank. It receives copies of condition reports rendered by them to the Federal Reserve banks. It has power to examine all member banks and the affiliates of member banks and to require condition reports from them. It limits by regulation the rate of interest that may be paid by member banks on their time and savings deposits. It has authority to remove officers and directors of a member bank for continued violations of law or unsafe or unsound practices in conducting the business of such bank, and it may, in its discretion, suspend member banks from the use of the credit facilities of the Federal Reserve System for making undue use of bank credit for speculative purposes or for any other purpose inconsistent with the maintenance of sound credit conditions.

The Board may grant authority to member banks to establish branches in foreign countries or dependencies or insular possessions of the United States or to invest in the stocks of banks or corporations engaged in international or foreign banking. It also charters, regulates, and supervises certain corporations that engage in foreign or international banking and financial activities.

The Board is authorized in its discretion to issue voting permits to holding company affiliates of member banks entitling them to vote the stock of such banks at any or all meetings of shareholders. It may issue general regulations permitting interlocking relationships in certain circumstances between member banks and organizations dealing in securities or, under the Clayton Antitrust Act (38 Stat. 730, as amended; 15 U.S.C. 19, 21), between member banks and other banks.

Other functions.—The Board operates the Interdistrict Settlement Fund by which balances due to and from the various Reserve banks, arising out of their own transactions or transactions of their member banks or of the U.S. Government, are settled in Washington through telegraphic transfer of funds without physical shipments of currency. Under the Bank Holding Company Act of 1956 (70 Stat. 133, as amended; 12 U.S.C. 1841, et seq.) the Board is required to pass upon certain acquisitions of bank stock or assets by bank holding companies, to pass upon the merger or consolidation of bank holding companies, and to make determinations relating to the retention of nonbank stock by bank holding companies.

Expenses.—To meet its expenses and pay the salaries of its members and its employees, the Board makes semiannual assessments upon the Reserve banks in proportion to their capital stock and surplus.

FEDERAL OPEN MARKET COMMITTEE

Each member of the Board of Governors is also a member of the Federal Open Market Committee, whose membership, in addition, includes five representatives of the Reserve banks, each such representative being elected annually.

Open market operations of the Reserve banks are conducted under regulations adopted by the Committee, and pursuant to specific policy directives issued by the Committee, which meets in Washington at frequent intervals. Purchases and sales of securities in the open market are undertaken to supply the bank reserves to support the credit and money needed for long-term economic growth, to offset cyclical economic swings, and to accommodate seasonal demands of businesses and consumers for money and credit. These operations are carried out principally in U.S. Government obligations, but they also include purchases and sales of bankers' acceptances. All operations are conducted in New York where the primary markets for these securities are located, and the Committee has selected the Federal Reserve Bank of New York to execute transactions for the Federal Reserve System Open Market Account in carrying out these operations. Under the Committee's direction, the Federal Reserve Bank of New York also undertakes transactions in foreign currencies for the Federal Reserve System Open Market Account. The purpose of these operations is, in the short run, to help safeguard the value of the dollar in exchange markets and to help moderate temporary imbalances in international payments; and in the longer run, to help increase international liquidity by means of reciprocal holdings of foreign currencies to meet the requirements of an expanding world economy. The Federal Reserve has, in particular, entered into a network of mutual currency arrangements with other central banks providing for the right to draw foreign exchange within specified limits and for specified periods.

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