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COMMENT ON THE FEDERAL RESERVE FIVE POINT PROGRAM

Point One

This proposal justly asks that Congress take steps to absorb the excess reserves by raising the required reserves thru the Federal Open Market Committee. This is justified especially on the theory that the power left in the member banks to expand and contract demand deposits should be entirely removed, if not severely controlled. But it is gravely objectionable in giving powers to the Open Market Committee, consisting of private persons with an interest adverse to the national policy.

The powers granted by Congress should be exclusively to the Board of Governors.

Giving the Board of Governors the power to raise the reserve requirements by classes or by individual banks to one hundred per cent of the demand deposits, leaving the reserves on time deposits and savings deposits as they are is desirable.

The Act should expressly authorize banks to act as intermediaries between depositors having idle money and borrowers seeking loans for constructive purposes.

The private membership of the Open Market Committee should be abolished on the ground that the exclusive authority of the Congress to regulate the value of money is a power of sovereignty which cannot with propriety be transferred to private persons, however respectable their financial standing.

The suggestion that the required reserves by exempted from assessment by the FDIC is justified. The FDIC should remain as an agency of insuring

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deposits of all banks operating in the United States and of all deposits in such banks; and the exclusive agency thru which bank examinations should be made, with the Comptroller of the Currency made a subdivision of the FDIC in relation to National banks.

Point Two

The power to issue $3-billion of greenbacks is unimportant provided Congress controls the regulation of the volume and value of money. The authority to issue silver certificates against seigniorage should cease as unnecessary because under a proper bill all paper currency required can be furnished out of bank reserves. The paper currency of the country is adequately supplied now by member banks whose reserves should be convertible on demand into legal tender paper money. The power to devalue the dollar in terms of gold should cease because it leaves unstable the value of gold, which has been otherwise fixed by law at $35.00 an ounce. The management of the $2-billion stabilization fund should be exclusively in the hands of the Board of Governors and confined to domestic uses. Such stabilization fund has been proven to be unavailing with regard to the franc, which has fallen from six cents to two cents.

Point Three

The question of the further flow of gold into the United States should be the subject of a special report to Congress by the Board of Governors. It should be obvious that the flow of gold into the United States is due to the fact that even at $35.00 an ounce the gold is less valuable than the American domestic dollar, whose purchasing power has been around thirty per cent above predepression normal in terms of wholesale commodites; and far more valuable

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in terms of buying choice securities in the United States, and far more in buying real estate or mining properties in the United States.

Point Four

When, under an act of Congress, there is an adequate supply of demand deposits sufficient to accomplish maximum employment, there will of course be no need for extra money but a need to prevent a larger amount of money being created. This power should be put in the Board of Governors in both creating and contracting the money supply thru the purchase or the sale of Government securities and other sound bankable assets. Power should be given to the Treasury Department to sell its taxable securities in a manner to provide the expenses now anticipated by Government; and to buy such securities the Treasury should be authorized by law on six months notice to call any outstanding notes or bonds for settlement. The Federal Reserve banks should be required by law to prevent the bonds and notes of the United States going below par by the purchase of such bonds or notes whenever offered below par. These provisions would prevent speculation in the United States bonds either up or down and further stabilize the value of money, and remove from the banks the terrible fear that speculators could repeat what they did in May, 1920, when bonds prices went below 82 and in 1932 when they fell to 83.

Point Five

This suggestion is fully justified.

The existing control of speculation on the stock exchanges has gone far to prevent any future irresponsible bull market, and has had a tendency in

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the reverse direction of preventing reasonable freedom in buying and selling securities on the market to the injury of industrial enterprises whose opportunity to obtain money for constructive purposes has been impaired.

The rule should be imposed in the creation of credits for industrial and commercial purposes that they should be constructive and not speculative. The Board of Governors should be given the power to prevent an individual bank making loans of a highly speculative character in such a way as to impair the stability of the bank, and the bank examiner should be so advised. The examiners should encourage loans based upon sound existing values capable of self-amortization.

The Federal Reserve banks should buy Government bonds issued for the total preparedness program, and should be authorized to sell such bonds in the event of any inflation or rise in the price level above the predepression standard of 1926. So long as the dollar index is above the predepression standard, the Reserve banks under the direction of the Board of Governors should buy United States bonds and other bankable assets. Whenever the dollar index falls below par, the predepression standard of 100, the Board of Governors should sell United States bonds and bankable assets until the dollar index is restored to the predepression standard.

No person not a member of the Board of Governors should have any vote as a member of the Open Market Committee, or any advisory power in relation to the monetary policy of the United States.

The medium of exchange of the United States should not be based on debt, either for creation or contraction; but should be created exclusively by the authority of Congress as a medium of exchange and as a measure of value, and exclusively in the public interest.

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