of the money and credit supply; and (c) the appropriate relationship between the Government, acting in its supervisory capacity, and a properly constituted central banking system.

These false notions and misconceptions show themselves clearly in those sections of title II which will enable the party in power to control completely the personnel of the Federal Reserve Board. They are revealed in those sections which will enable this politically controlled Board to attempt to put into effect the theories of money and credit control held by many of those in power. They are seen in those sections of the bill which will enable the Government to force the central and commercial banking structures to aid the Government in carrying out its fiscal policies regardless of their wisdom, to give Government credit an artifically high rating, and to use the banking system and people's savings without their approval and regardless of the effect upon commerce, agriculture, and industry. In short, nearly all the fundamental conceptions regarding the appropriate functions and methods of operation of a well-conceived central banking system, and regarding the proper relation of the Government to such a banking system, are contrary to the most outstanding lessons learned from central banking experiences, are dangerous, and are almost certain to lead to great trouble in the future.

The analysis of the various parts of title II, given below, provides ample support for these observations regarding the nature and fallacies of the fundamental notions lying behind this title II. There is, also, some support for the bill from those who are anxious to see all our major economic institutions socialized.

3. Considering the nature of the money, banking, and fiscal theories underlying title II of this bill, and considering the further fact that there are no circumstances, insofar as a sound recovery is concerned, which demand any fundamental changes at present in our Federal Reserve System, the Senate Committee on Banking and Currency could perform no better service at this time, with respect to the proposed legislation, as embodied in title II of this bill, than to refuse to vote it out of committee. Instead, the committee should substitute a bill of technical corrections, such as those in titles I and III, embodying the recommendations of the Federal Reserve Board on specific difficulties.

It is also urged that a joint resolution be prepared providing for the creation of a National Commission on Money and Banking to gather evidence on our money and banking problems and to draft bills to provide this country with the proper type of money and banking systems. It would seem rational to have such a commission composed of the leading money and banking authorities of this country. Its membership might well be composed of (1) those members of the Senate and House Committees on Banking and Currency who have devoted years to the study of problems of money and banking; (2) the most outstanding and experienced professors of money and banking in our leading universities—men whose reputations, intellectual integrity, and capacity are beyond question; (3) outstanding bankers who are men of experience, maturity, and social vision; and (4) other students of money and banking, drawn from other fields of activity, if they are recognized as thorough students of money and banking problems.

The delay in legislation which would result from the adoption of such a program is eminently desirable. Money and banking mechanisms are probably the most delicate and, at the same time, most vital of all instrumentalities in our economic system; and it is for this reason that hasty and ill-conceived legislation in such a field is very unwise and is to be deplored. In its stead there should be substituted legislation growing out of careful deliberation by our most competent experts.

4. The following analysis of the various sections of title II of the banking bill of 1935 support the accuracy of the preceding observations.

Section 201 (a) provides the means by which the board of directors of each Federal Reserve bank will be brought under the control of the Federal Reserve Board, which, in turn, can be and doubtless will be politically controlled. This means of control is found in the fact that the governor and vice governor of each Federal Reserve bank can be appointed only with the approval of the Federal Reserve Board.

The governor and vice governor can come from any district. In this manner the Federal Reserve Board can, for practical purposes, inflict any outsider on a Federal Reserve bank as governor or vice governor. The Federal Reserve Board could state to any board of directors of a Federal Reserve bank that unless a certain individual is appointed by the directors none other will be approved by the Federal Reserve Board.

Since the governor and vice governor are approved by the Federal Reserve Board, and since two other class C directors, other than the Governor, are representatives of the Federal Reserve Board, the Government can have four representatives as against the present three, since the vice governor need not be appointed a class C director. Why the office of deputy chairman is not combined with that of the vice governor is not clear unless the purpose be to enlarge the number of Government representatives on the board of directors of each Federal Reserve bank.

It is to be noticed also that "all other officers and employees of the bank shall be directly responsible" to the governor of the board of directors. This gives him the powers of a czar, and through him the politically controlled Federal Reserve Board can reach directly and arbitrarily down to every employee in every Federal Reserve bank. This means, of course, that the political authorities can reach any employee they please. In this manner every employee of every Federal Reserve bank can and may lose his independence and become, like the Federal Reserve Board, an unwilling vassal of the political party in power. The powers of classes A and B directors can be crippled if not nullified under such a system, since the Governor of each Federal Reserve bank is given this authority and is a Government agent.

Today the elected governors of the Federal Reserve banks are chairmen of the executive committees and, in this manner, they have increased their powers as against the chairmen-Federal Reserve agents. This bill makes a Government agent chairman of the executive committee and thus the Government worms its way into the direct operation of each Federal Reserve bank.

The slightest reflection upon such a proposed arrangement should convince one that all activities of each Federal Reserve bank can be brought under the absolute control and domination of the political party in power. These Governors and Vice Governors may be as arbitrary as they please, so long as they satisfy the politically controlled Federal Reserve Board. In this manner the political party in power can lay its rough hands on the Federal Reserve banks and turn them into a politically controlled agent of the party in power.

Such an arrangement provides the means by which the party in power can extend its political tentacles over the banking system. And there seems to be ample evidence to support the belief that such is their intent. But should they protest that this is not their purpose, then the reply still must be that a prudent people will not put such powers within the reach of any political party. No one may assert with any assurance that the next Executive may not be of such a character that he will not take advantage of the authority which this title II places in the hands of the present Executive. When a political administration lays hold of our central commercial banking system, it has control of one of the most delicate and most vital agencies of our economic system—an agency that must be free from such domination if our economic system and our people in it are to maintain any appreciable amount of their traditional freedom. When a nation's banking system passes into control of the political power in power, the freedom of a people can speedily disappear. And certainly there is no reason to expect that better banking can or will result from any such proposal as this one in section 201 (a) of this bill. Were the Federal Reserve Board a properly constituted independent body, there might be less argument against such a proposal; but considering that the Board can be made into a subservient agent of the Government, such a plan opens the way for making a political agency out of the Federal Reserve System. Nor does Governor Eccles' recently suggested modification, to the effect that the Reserve Board should approve the Governors' appointment every 3 years, instead of annually, seem to change the picture fundamentally.

It is also to be observed that one of the class C directors shall be appointed deputy chairman of the board of directors, and that the Vice Governor may be appointed a class C director. It is because of this word "may" that the Federal Reserve Board may have four representatives on the board of directors of each Federal Reserve bank.

The duties now performed by the Federal Reserve agent "shall be performed by such person as the Federal Reserve Board shall designate." This provides the means by which the Federal Reserve Board can have another representative at each Federal Reserve bank. In this manner it can have five agents there.

It may easily be an open question whether membership on the boards of directors of the Federal Reserve banks should be restricted to 6 years. Maturity in membership may be a most desirable thing. This is a provision to which careful study should be given. Lack of continuity and tradition in Reserve policies is widely supposed to be a weakness of the Reserve System.

The last paragraph of section 201 (a), page 40, lines 17–22, permitting present incumbents of the boards of directors to serve out their terms, would seem to require a modification of these parts of the bill which provide that this section shall be effective 90 days after enactment.

Section 202 is one of those coaxing, half-hearted measures by which attempts are made to persuade nonmember banks to become members of the Federal Reserve System. Our statute books are cluttered up with these conciliatory provisions in law. This particular provision merely lowers still further the capital requirements of banks which may enter the System. At present the capital requirements are too low. And if it is believed that nonmember banks should be members of the System, then the Federal Reserve Act should be amended so as to provide that all banks should, after a certain date, be members of the System. If the capital requirements of some of the banks are too small, such banks should be made branches of larger member banks. But all legislation of this type probably should be left until a competent money and banking commission makes its report.

Section 203 provides the means by which the Federal Reserve Board can be made into a politically controlled and dominated agent of the President. Lines 1–3, page 42, of section 203 (1) deserve special attention. They may have little significance, or they may be very subtle. In any event they open the way to possible developments which should be examined. They provide that the President "shall choose persons well qualified by education or experience, or both, to participate in the formulation of national economic and monetary policies." It will be noticed that these members of the Board are to be qualified to participate in the formulation of national economic policies as well as monetary policies. Does this mean that they are to participate in the formulation of national economic policies? If this sentence means what it appears to mean, then this Board can be made a part of the planning bureaucracy of the Government, and the Federal Reserve System can become, and can be made to become, the financial agent of the Government in carrying out its planning policies. It can be made an engine of oppression rather than a neutral agent to finance commerce, agriculture, and industry.

If this section of the bill is not intended to be subtle, it at least opens the way to dangerous developments. And we should remind ourselves that these developments would be in absolute harmony with the theories of some of the chief advocates of title II of the bill. It also reveals how far removed its drafters are, in their notions of how to constitute a central bank board, from those who would profit from experience.

On this point it might be profitable for us to see what Kisch and Elkin, two of the world's best-known writers on central banking, have to say (in 1932) as to the proper relation between the state and the management of a central banking system: They say: "Just because the decisions of the bank react on every aspect of the economic activities of the country, it is essential that its direction should be as unbiased as is humanly practicable and as continuous as possible. But clearly, if the bank is under state control, continuity of policy cannot be guaranteed with changing governments, nor can freedom from political bias in its administration be assured. * * * But if the government has a controlling influence over the bank, there are obvious ways by which the most powerful interests in the country can try to enforce their wishes. The road is open for political intrigue, and there can be no safeguard that the policy of the bank will be carried on without bias as national interests require. It seems a paradox that when the object is to secure the execution of a national policy, this should not most readily be achieved by the creation of a state bank under official control; but even in the countries where the capital of the bank is held by the state, steps have been taken in certain instances to remove its administration from political influence and to give it a measure of independence from the government" (Kisch and Elkin, Central Banks, Macmillan & Co., Ltd., London, 1932, pp. 20, 23). These authors say further: "In most economically developed countries the probabilities are that the national government will be the largest individual customer of the local money market. In such circumstances it is evident that if it also controls the administration of money-market policy, it may easily find itself in an equivocal position where it may be called upon to decide between two courses, one of which may be immediately convenient to itself and the other conducive to the ultimate interest of the country as a whole. The creation of such dilemmas should be avoided" (p. 21).

There is a definite and overwhelming consensus of opinion among competent authorities that the control of credit and money supply and of the price level is not improved, but definitely weakened and endangered when governments assume or dominate the functions of central banks. The fact that nearly all leading nations in the world avoid such a device should provide strong evidence in support of the accuracy of this statement. Only Sweden, Finland, Latvia, and Russia have State-owned central banks.

The experience of Germany with the Reichsbank placed under Government control was so disastrous that the German Bank Act of 1924 opened with the sentence that "The Reichsbank is a bank independent of Government control." Regarding the unhappy experiences of the Bank of France under the domination of the treasury, Kisch and Elkin, writing in 1932, had this to say (p. 22): "There can be no question that the power of the Government to force increased loans from the Bank of France intensified the depreciation of the franc and contributed to the financial crisis that culminated in 1926."

During the war period our Federal Reserve System was under the domination of the Treasury, its policies were controlled by the fiscal interests of the Government, rather than by those of sound commercial banking, and the result was a gorging of the banks with Government bonds, an inflation until the price level reached the highest point in our history, an exhaustion of bank reserves, and finally, the collapse of 1920–21.

Reflecting upon the world's experiences with Government-dominated central banks, Kisch and Elkin remark (p. 22): "* * * if the control of the operations of the central bank lies directly or indirectly with the government, it becomes fatally easy for the government to finance itself for a time by means of book entries and short loans from the bank, a course which is the first step toward currency depreciation and inconvertibility."

Since the World War the tide has set strongly against granting the state power to interfere with the functioning of a central bank. The Brussels Conference Resolution (III) of 1920 crystalized this general feeling. It said: "Banks, and especially a bank of issue, should be freed from political pressure and should be conducted solely on the lines of prudent finance." The same statement was issued by the Genoa Conference in 1922. The independence of the central bank was a cardinal feature of the League of Nations reconstruction schemes for Austria and Hungary. As Kisch and Elkin point out, central banks have come more and more to be looked upon as analogous to large public trusts and less and less as departments of state. From the most independent central banks, such as the Bank of England and the Reichsbank (prior to the Hitler regime), there is a gradually ascending scale of government influence or control, until it culminates in the state owned and controlled system in Russia.

It is necessary and proper for a government to intervene in the affairs of the central banking system (*a*) in times of war, when the government's will must be enforced in all departments of government, business, and private affairs; and (*b*) when a national crisis occurs which makes it impossible for the bank to meet its obligations.

At other times the security and independence of the bank should be assured and unassailable, although knowledge of the affairs of the bank and of the treasury should be exchanged, since the activities of the bank and treasury affect each other. But each should be left to make its own decisions. This type of relationship has been expressed most admirably by the Deputy Governor of the Bank of England, who was recently quoted with the approval by Chancellor of the Exchequer Chamberlain in explaining the relationship between the treasury and the Bank of England (*The Times*, London, Dec. 22, 1935, p. 5): "We on our part", said the Deputy Governor of the bank, "never venture to interfere in any question which is considered a political question unless we are asked to express an opinion as to what the financial effect of any political operation may be. The treasury, on the other hand, are good enough to reciprocate. That is to say, that while we keep them fully informed as to the general trend of affairs in the city, and as to any occurrence affecting the position of finance and credit, they do not seek to dictate any alternative lines of financial policy if we, in our judgment, consider a particular line of policy essential for the protection of the country's main reserves." He also said: "The Bank of England is in daily touch with the treasury, sometimes many times a day. Probably twice in the week the Governor himself will pay a visit to the treasury * * *. We have no secrets from them."

This type of relationship seems to be the ideal one and appears to be supported by the leading authorities on the subject. Kisch and Elkin have this to say on the question (op. cit., p. 28): "The complete independence of the bank is perhaps an ideal to which countries can only approximate in different degrees according to their state of economic development and the sense of responsibility inherent in their public and particularly their commercial life." These well-known authors on central banking are representative of the best thought on the subject when they hold that, with the exception of the event of war and that of a national crisis in which the bank is faced with collapse or default, the ideal is found in removing the central bank or system as far as possible from government domination.

Although most countries give the government authority to appoint at least some of the officials to the central bank's board, such appointments or nominations are not generally intended to give, and should not give, the government any power of interference with the administration of the bank but should be looked upon as a device for insuring that the direction of the bank is in the hands of competent and disinterested men. And in no sense does this type of appointment provide legitimate ground for assuming that such men are representative of a political party or are to serve the political interests of any particular politicial group.

Since government financing is in nature an intrusion into, and often a disturbing factor in the bank's attempts to carry out the major and appropriate functions of aiding in the financing of business transactions, it is generally deemed wise to reduce as far as possible government borrowing from the bank and to limit the freedom of the government to put upon the central bank or banks its fiscal burdens. Kisch and Elkin go so far as to say (p. 37) that "* * * it is of cardinal importance that it should be made as difficult as possible for the government to resort to the expedient of borrowing from the bank a practice which, if continued, can only lead to a repetition of past disasters."

This is typical of the best thought on the question. Despite this fact, it is the purpose of the advocates of title II of this proposed banking bill of 1935 to lead this country in a direction contrary to the best conclusions of the world's leading authorities on the subject.

Section 203 (2) provides a means by which Mr. Hamlin may retire at once and Messrs. Miller and James in 1936, thus removing from the Board in a very short time, should they choose to retire and even if more arbitrary methods are not used, its three most experienced members. If this provision is to be enacted into law, it would seem that it should be so amended that all ex-members of the Board would become ex officio members of some advisory body, such as the Federal Advisory Council, in order that the benefits of the knowledge and experience of such men are not lost to the younger members of the Board. Such an arrangement could be an effective factor in developing fine traditions in central banking.

Lines 17–25, page 42, are awkard and confusing. Lines 17–22 say literally that "each member of the Board so retired from active service who shall have served for at least 5 years shall receive, during the remainder of his life, retirement pay in an amount equal to the annual salary paid" now. Thus he would receive a total pension of $12,000 for the rest of his life. How much will he be paid the first year of retirement? Or is he to be paid $12,000 in a lump sum? This sentence doubtless was intended to give the retired members who have reached 70 years of age and who have served 5 or more years an annual pension based upon the years served, the yearly amount to be determined by the number of years served multiplied by $1,000, but the bill certainly does not make this point clear. According to the first proviso, a person who has served, say, 8 years will receive $8,000 per year, and if he lives 3 years thereafter he will receive $24,000 in a pension; whereas lines 17–22 preceding the proviso would give him only $12,000, regardless of how long he lived. This proviso also omits the 5-year minimum; in line 24 the words "per annum" should be inserted after the word "pay", and in line 25 the word "served", apparently, should be inserted after the third word, "year." The entire section is badly muddled, and it should be rewritten and made to say what the authors intended that it should say.

Nor is the second proviso, page 43, clear or sufficiently specific in its meaning.

Furthermore, it is to be noted that, according to section 203 (3), every Governor appointed and removed will come in for this pension if he is 65 years of age, since he shall be deemed to have served the full term for which he was appointed even though he may have served only 1 month or even 1 day. What a great opportunity this proviso provides a President to place his friends on a fine pension for life. In 30 days he could give 30 of his friends who had reached 65 years of age a $12,000 annual pension for life. In 4 years he could develop a large pension list, all to be paid by the Federal Reserve banks. The Vice Governor apparently can have his term of service terminated by the President without the benefit of its being deemed that he had served his full term. It would appear that no member of the Board could afford to accept the office of Vice Governor.

This section 203 (3) reveals clearly the method by which a President can change the Board's personnel within the space of a week, to suit his particular wishes. This section provides specifically and openly that the members of this Board are to serve "until the further order of the President", whereas the present act includes no such provision. In fact, there is not a single word in the present act authorizing the President to remove a member of the Board, and it was expected that under the present law the members of the Board would be freed from any such interference. It has also been generally supposed that no President would presume to remove a member of the Board except for cause.

Experience and the recognized principles of central banking teach that the members of the Federal Reserve Board must be freed from risks of removal by the President, and all that is necessary to accomplish this is to write into the act the specific provision that a member of the Board may not be removed by the President except under certain specified conditions. The recent Humphrey decision (May 27) provides ample legal grounds for the incorporation of such a provision in the law. Furthermore, it would appear that the Governor and Vice Governor should be selected by the Board rather than appointed by the President.

The issue is not that of political control of the Board versus its domination by the banks, as the advocates of political control commonly assert. Those are not the only alternatives, and neither is the proper one. The correct solution lies in creating a board which would be independent of domination by the banks, by the political party in power, and by any other group that might attempt to put pressure upon it in an effort to obtain some action in its behalf. Only in this manner can our banking system be made to function in the interests of commerce, agriculture, industry, and the general public.

It would be difficult to conceive of a more dangerous provision written into any central banking law than that found in section 203 (3). The only reasonable interpretation to be placed upon this provision is that its authors and advocates propose to convert the Federal Reserve System into a political instrumentality of the party in power. Such a provision opens the way for the destruction of what remains of the independence of our Federal Reserve System, which we have tried to evolve into a useful and independent system over a period of 20 years. If every other section of this bill and of the Federal Reserve Act, as amended by this bill, were perfect, the System still could be converted into an agency of the party in power, and the bill still would be dangerous. Considering the dangers in sections 201 and 203 of this bill, the possibilities of dangers in the other sections of title II are accentuated. For this reason there are many today who oppose other sections of title II, principally because they would be administerd by a politically controlled Federal Reserve Board.

The answer to this proposed amendment to the Federal Reserve Act is that it should never be permitted to pass.

The independence of the Federal Reserve Board should be strengthened, not weakened, and our Federal Reserve System will not be what it should be until this is accomplished. Our experiences with our Federal Reserve System teach us that our Federal Reserve Board has not been sufficiently independent of the Government. The major weaknesses in the Board today center largely in the fact that it has been subject to too much interference by the political authorities.

There are various ways in which the independence of the Board can be insured. While few authorities doubtless would care to insist that their suggestions are necessarily the best ones, it would seem that considerable weight should be attached to those of Dr. Adolph Miller, of the Board, considering his great experience and distinguished service on the Board.

Everything that any central banking system can be expected to accomplish can be written in general terms into the organic banking act, and thereafter the administration of the System should be left to independent nonpolitical administrative bodies. As the Board is reconstituted and strengthened, after a careful study of the problems by our best experts, it may be found wise to remove the Secretary of the Treasury from the Board, though it may be desirable to make him a nonvoting auditor or participant in the Board's discussions; and it probably would be found desirable to have the office and functions of the Comptroller of the Currency absorbed by the Board. It would seem also that the Federal deposit insurance mechanism should be brought under the complete jurisdiction of the Board. But these are questions which can be answered with greater accuracy after adequate study has been made of the problems by a well-constituted monetary commission.

As a further observation on the question of the relation between the treasury and a country's central banking system, it may be instructive to note what the Financial News of London had to say on the subject in its issue of February 20, 1935, with respect to the independence of the Banks of England and France:

"The resistance of the Bank of France to the reflationary efforts of the Government throws curious light upon the relations between treasury and central bank. Great Britain is, apparently, not the only country where the central bank is in a position to pursue a policy of its own, which is at times at variance with the Government's policy. Although technically the Bank of France is controlled by the treasury—the governor and senior exectuive officials are appointed and can be removed by the Government—it is not always easy to impose the official policy upon the central bank. The example of M. Moret, who, in spite of the fact that he was a former treasury official and was nominated by the treasury to the governor's post, was a firm defender of the independence of the Bank of France against the treasury, shows the influence of an institution with strong traditions upon those who enter it.

"It is probable that if the executive officials of the Bank of England were to be appointed by the treasury, the result would be similar to that witnessed in the Bank of France. In a few years the treasury officials in charge of the bank would be as much under the bank's traditions as if they had grown up within its walls. Under their guidance the bank would probably retain a high degree of independence. It may well be asked, therefore, What would be the use of nationalizing the bank?"

The modifications recently suggested by Governor Eccles do not add appreciably to the assurance that the Federal Reserve Board could maintain its independence. As a matter of fact, the one thing that stands out, in all the concessions made to criticism of this provision of title II, is that care is taken to keep the way open so that the Federal Reserve Board can be converted into a political agent of the party in power. If the advocates of this section of title II really desire to see an independent Federal Reserve Board, let them demonstrate their good faith by devising the mechanism which will close the door absolutely to any possible interference on the part of the political authorities. This is probably the most fundamental issue involved in title II, and it should not be forgotten.

Section 204 appears to be free from criticism.

Section 205, creating a new type of Federal Open Market Committee, might have some virtues if the Federal Reserve Board were a properly constituted, independent board. But considering the fact that the Board can be politically controlled, this section of the bill merely provides additional means by which the Government can extend its powers over the activities of the Federal Reserve banks. It should be noticed that this amended section of the Reserve Act omits the requirements of the present law with respect to open-market operations to the effect that the time, character, and volume of open-market transactions must be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. Thus the way is opened for engaging in open-market operations for purposes which may suit the political group in power and which need have no beneficial bearing whatever upon general business conditions as contemplated in the present law. Through this open-market mechanism the managed currency advocates can attempt to put into effect their ideas of controlling the volume of money and credit; the currency can be inflated for the purpose of raising prices to assist, as they think, recovery; and support can be given to the Government's credit. By means of this amendment the Federal administration can compel open-market operations to conform to their particular purposes, regardless of the principles of sound central banking and the needs of commerce and business. This is unsound in principle.

Government financing, in the final analysis, should be looked upon as an intrusion into, and a disturbing factor in, the fields of private finance. And if a well-ordered central banking system performs its functions properly, there will be many times in which it must and should go into the open money markets to combat the effects of Government financing. It is not the function of a central banking system to give Government credit a higher rating than it would otherwise have in the open money markets to which non-Government borrowers and lenders must go. It is the function of all commercial banks to give borrowers the exact credit rating to which they are entitled; and it is the function of these banks and of the central banking authorities to give Government borrowers exactly the same type of credit rating. To assume that Government credit should be given an artificially high value by a central banking system is to assume that it is the function of a central banking system to inflate the currency. This section 205 is out of harmony with what are known to be sound principles of central banking.

Although it would be preferable to have the question answered by a national monetary commission, the query may be raised as to why the Council of Governors if they are not made Government appointees, or even the Federal Advisory Council might not also assume the functions now assigned to the Open Market Committee. The Federal Reserve Board, the Federal Advisory Council, and the Council of Governors might well draft a plan for the open-market mechanism, if

Congress is determined to pass title II of this bill. To write into this bill a plan for a new type of open-market committee without consulting with the governors of the Federal Reserve banks and with the Federal Advisory Council is certainly not a commendable procedure.

It is provided by this amendment, at the time these comments were prepared (Apr. 20), that all five members of the Federal Open Market Committee will be government agents. The fact that two of the members are to be selected from the governors of the reserve banks by the governors does not change this fact since all these governors will be Government agents. The suggestion made by the Governor before the House committee to the effect that the open market authority be vested in the whole Federal Reserve Board and that there be appointed a committee of 5 governors selected by the 12 governors with the requirement that the Board consult this committee before changing the open-market policy, the rediscount rates, or the reserves required of member banks is difficult to appraise since all these men would still be agents of the Government. If the Board were an independent body then the suggestion might have merit. But considering that the Board could be a politically controlled body the suggestion would not seem to change the general picture appreciably.

With respect to the power given the open-market committee to make recommendations to the Federal Reserve Board from time to time regarding the discount rates of the Federal Reserve banks, it may be presumed that this has no particular significance unless it be assumed that the Reserve Board exercises the power of prescribing discount rates for the reserve banks. It would seem preferable that the present method of having rates initiated by the respective reserve banks, subject to approval of the Board, is preferable. But if the Reserve Board were properly constituted and independent of political influences one could appropriately advocate that the Board be given the power not only to review discount rates but to institute them when a Federal Reserve bank is clearly running counter to sound national banking policies.

Section 206, which opens the way for discounting any commercial, agricultural, or industrial paper and for advances secured by any "sound assets" of such member bank, seems to be tacked on to the preceding parts of section 13 of the Federal Reserve Act without any regard to how it affects the preceding paragraphs of that section. It would appear that most of the preceding paragraphs are nullified. Just what the law would be if this amendment were passed as drafted, would be difficult to determine. It reveals a hasty and careless type of bill drafting.

It is doubtful whether, under the best type of central banking system, such a provision can be defended. It would seem that, under such a system, this wide-open provision should at the most be reserved for emergencies.

Under a politically dominated system of central banking, as provided by this bill, section 206 provides the means by which the Reserve Board can admit to the portfolios of the Federal Reserve banks any kind of paper, regardless of its illiquidity, and fix the maturity of the paper at any distant date it chooses to adopt.

Since it is not the functions of a central banking system to accept illiquid paper, the proper restrictions against such acceptance should be set up. It is possible that exceptions to meet emergencies could be provided, with the proper penalties and handicaps attached, so that emergency transactions would not become the normal ones. But it would seem preferable to retain the true and proper commercial characteristics of the central banking system and determine whether a separate institution might not be devised to absorb illiquid paper of commercial banks in times of stress. Perhaps the Reconstruction Finance Corporation could become a permanent institution for this purpose. This is a question deserving the best attention of a national monetary commission. One thing seems clear, however, and that is that section 206, as it stands, is unsound and unwise.

Section 207 provides the means by which the Federal Reserve banks can be compelled to absorb the direct obligations of the Government or those fully guaranteed as the principal and interest by the United States, regardless of maturities. In this manner the Reserve banks can become gorged with such securities having long maturities and consequently can become very illiquid. Under a properly organized Federal Reserve Board, and with other appropriate administrative machinery, such a provision might be safe enough, because any properly constituted central banking authority would keep the amount of such securities held down to a small amount, but under the system provided in this bill, this section merely adds another unsound provision to the Federal Reserve Act.

Section 208 (1) provides the means by which Federal Reserve notes are to be issued against the general assets of the Reserve banks in addition to requiring the 40-percent reserve of gold certificates. If these assets were liquid, this provision would not be objectionable, but since the way is opened by this bill for admitting all kinds of illiquid paper to the portfolios of the Reserve banks, this section provides the way for converting illiquid assets into legal tender paper money. This, of course, means inflation and is unsound in principle.

The argument is advanced that since deposits are created against these illiquid assets there is no reason why the Federal Reserve notes also should not be issued against the same assets. The answer to that argument is that neither Federal Reserve deposits nor Federal Reserve notes should be created or issued against illiquid assets. It is not the function of the Federal Reserve banks to receive illiquid assets; and to issue Federal Reserve notes or to create deposits against such assets is an inflationary procedure and destroys the desirable elastic element in both the note and deposit currency.

Considering the fundamental importance of the questions involved in this amendment, perhaps it would be appropriate to make some comments upon the principles which should guide in creating a proper type of note and deposit currency.

The most economical currency ever devised by man is credit; and the most useful forms of such a currency are deposit and note currency. Of these, the deposit currency normally effects about 90 percent of our exchanges. Both the notes and the deposit currency function properly and meet all requirements if they are issued against reserves and self-liquidating paper, which, in turn, is based upon transactions that will, by their nature, pay off the loans which give rise to the deposit or note currency. In this manner, both redeemability and elasticity are provided, and inflation is avoided. And inflation is always to be avoided, because it is an extension of purchasing power, either in the form of paper money or credit, which is not secured by reserves or commodities that will liquidate it at the proper time; and this, of course, means losses for some one.

Therefore, when Federal Reserve notes are issued against bonds, the desired and appropriate feature of elasticity is destroyed, and the inflationary procedure is being followed. Elasticity is destroyed because there is nothing in the nature of the bond security which automatically liquidates the notes after the exchange transaction is completed. When such notes are issued against commercial paper, they are an advance to business men who will, in 30, 60, or 90 days, for example, sell goods, retire the paper lying behind the notes, and, consequently, retire the notes. Thus the notes effect the exchange, which could not be completed for 30, 60, or 90 days, then they disappear. When, on the other hand, such notes are issued against bonds, the exchange is completed; the notes remain outstanding; there is nothing in the nature of the transaction that remains to be completed beyond the payment of the bonds when they mature, and there is nothing to take place which will retire the notes until the bonds do mature. Thus, there is a net addition to the currency; the price level tends to be disturbed; the currency goes into circulation without any new wealth being produced to liquidate the notes; and the procedure, therefore, is inflationary. Bonds should represent a transfer of savings from the bond buyer to the bond seller, and the currency supply should remain undisturbed. But the issuance of currency against the bonds has the effect of creating an additional supply of currency with no new creation of wealth. Hence it is inflationary; and an inflationary procedure can never be defended on any grounds, because it always involves losses to someone; and these losses are due to the character of the medium of exchange.

Properly constituted bank note and deposit currencies should also be elastic in nature. And if the currency is to be elastic it must expand and contract, either automatically or as a result of control or both, in a manner that will contribute to the stability of the price level under conditions of economic equilibrium. If the price level is rising soundly—that is, in harmony with, and as a result of, a sound recovery or expansion in business—an elastic currency, either note or deposit, will permit that rise in the price level to take place. But when production and consumption tend to come into balance, the currency having the quality of elasticity contributes to this price level stability, as it should. A stable price level under conditions of general economic equilibrium, as already pointed out, is probably the most desirable condition known to man, and a currency which contributes to such stability is probably the best currrency which people can devise.

According to the terms of section 208 of this bill the Reserve banks apparently are to receive Federal Reserve notes without posting anything with anyone. It seems that the Reserve banks are to be supplied with all the notes they may need, the only requirement being that the Reserve banks maintain a reserve of 40 percent in gold certificates, which are, at present, inconvertible paper money. In addition, the notes are made, as at present, a first and paramount lien on all the assets of the Reserve banks.

As the Federal Reserve banks purchase bonds, by creating a deposit to the credit of the Government, a deposit currency is created which is inelastic and inflationary in nature. The banks receive the bonds and the Government receives the deposit. But the currency supply does not remain unchanged; it is increased by the amount of the deposit less any reserve which might be needed. If there is a surplus of reserves then there is a full net increase in currency equal to the value of the bonds. If the withdrawal of deposits gives rise to the withdrawal of Federal Reserve notes, the effect is in general the same. There is a net increase in the Reserve notes without any additional reserves or commodities being created to liquidate them. This is an inflationary procedure and one that can continue as bonds are purchased until the reserves of the Federal Reserve banks are reduced to the legal limit. Thus the price level tends to rise as against the available wealth. The assets held by the banks against these notes will not retire the notes automatically, and it is doubtful if any management group would force such a retirement. People must pay higher prices for things, not because there has been an increased production and a resulting increase in income, but because of a defect in the currency itself. It is a depreciating currency, and the general public loses in the form of an increased cost of living resulting from a defect in the currency.

If an effort is later made to retire such a currency, it will be necessary for the Government to raise taxes to pay off the bonds. Taxes are a burden to all people and all business and have a depressing effect on productive activity. Thus additional burdens must be incurred as a means of retiring the currency which, in itself, caused the public losses.

If the notes, on the other hand, are issued against self-liquidating paper they do not disturb the price level, they do not cause losses to people, and they retire themselves automatically and without involving any such depressing agents as taxation, provided the usual restrictions used to force a note contraction are attached. Title II of this bill removes some of these restrictions on Federal Reserve notes and, consequently, there will be less tendency for them to contract as they should. The bill apparently repeals the provision prohibiting one Federal Reserve bank paying out the notes of another, and it removes the tax penalty for such payment. Thus, from this point of view, as well as from the point of view of the assets underlying these notes, the elastic feature is impaired.

The same line of reasoning is applicable to the creation of a curreeny against mortgage paper as an asset. Some paper should represent a transfer of savings from one group to another, so that the currency supply will remain unchanged. And when the mortgage is paid off it should be paid off out of savings. Hence it is proper, within limits, to use savings deposits for investment in such paper. But if a commercial bank creates deposit currency against such investment paper, it is inflating the currency because the currency is not self-liquidating, and it is inelastic for the same reason. When notes, for example Federal Reserve notes, are drawn into circulation as a consequence of the creation of deposits against such illiquid assets as mortgage paper the note currency becomes inflated and inelastic.

These, in short, are the fundamental principles which should guide in the issue of bank notes and in the creation of deposit currency. Sections 206, 207, and 208 of title II are for these reasons unsound in principle.

Then the question may be raised as to why the Federal Reserve notes are made legal tender for all purposes. When a money is legal tender for all purposes, it can be used to pay all debts, public and private. This means, literally, that these notes could be used for lawful reserves and could be used to redeem any other currency. Is it intended that these notes shall be "lawful money" for reserve purposes, thus converting a liability into an asset? This, of course, is not a rational procedure, and yet this is what lines 22 and 23, page 46, really provide.

In contradiction to this, lines 24 and 25 exclude these notes from the lawful money for reserve purposes in the Federal Reserve banks. This means that the Federal Reserve notes are not permitted to fulfill their functions as full legal tender money. The two provisions are in direct conflict and should make clear the fact that it is irrational to attempt to make Federal Reserve notes full legal tender. The words "receivable for certain purposes", originally employed with respect to these notes, should be restored and the words "legal tender" abandoned.

It might be pointed out incidentally here that the Federal Reserve Act has never used the term "lawful money" properly. It speaks of gold or lawful money when it should say gold or other lawful money, since gold and gold certificates obviously are also lawful money.

Part of section 208, in lines 8–10, page 47, provides that the Treasurer of the United States shall cancel and retire unfit Federal Reserve notes coming from a source other than a Federal Reserve bank, but it does not specify or provide any fund for such retirement. The last sentence of this section, lines 10–12, page 48, provides that notes unfit for circulation should be returned by the Reserve banks to the Comptroller of the Currency for cancelation and destruction. Just why both the Comptroller of the Currency and the Treasurer of the United States should be involved in canceling unfit notes is not clear.

This bill abolishes the 5-percent redemption fund with the Treasurer of the United States. It also permits one Reserve bank to pay out the Reserve notes of other Reserve banks without any penalties, and, in this manner, one of the factors forcing a retirement of these notes is removed. There appears to be no good reason for repealing either of these prevailing requirements. The omission of the latter requirements merely serves as another means of inviting a looser type of banking. The omission of the redemption fund may be due to careless bill drafting.

Section 208 (2) reveals careless bill drafting in the fact that care was not taken to strike out all words which should be deleted. For example, in the second line of the Federal Reserve Act following the last deletion the words "or subtreasuries" appear again and are permitted to stand by this repealing section.

Section 209, which permits the Federal Reserve Board to change the reserve requirements of the reserve banks as they see fit, is a dangerous weapon to put into the hands of a politically dominated Board. The preceding sections of title II of this bill, combined with this section, make it possible for the Board to pack Government securities and other illiquid paper into the portfolios of the Federal Reserve banks until the surplus reserves are exhausted, and then the reserve requirements of member banks can be reduced, thus permitting the Board and banks to proceed with their inflation without let or hindrance. The provision that the reserve requirements of these banks may be changed "in order to prevent injurious credit expansion or contraction" would probably prove to be little more than the statement of a pious hope. It probably would mean nothing in the hands of a politically controlled Reserve Board determined to inflate the currency. And, if it were used, it would seem that the effects might be unfortunate for the reason that it would tend to have a sharp deflationary effect on those banks with no surplus reserves and with little inclination to rediscount. If such a plan were to be used, it would seem that it should be applied to individual banks rather than indiscriminately to all banks of a given class. But even this would have its dangers under a politically controlled system. It would appear that a much better plan would be that recommended by the Federal Reserve Board, namely, that reserve requirements of member banks be based not solely upon the volume of deposits but also upon the rapidity of their turnover.

Section 210, stipulating the conditions under which member banks may lend on real estate, flies in the face of all practical experience with such loans by commercial banks. Provisions for such loans should be restricted, not enlarged. To raise the percentage of the value of the property for lending purposes from 50 to 60 is unwise, as is the 75-percent provision for loans amortized within 20 years. To raise the limits of such investments from 50 to 60 percent of time and savings deposits and from 25 to 100 percent of the bank's capital and surplus is a denial of the value of our past experiences with such loans.

In lines 13 to 18, page 50, in which real-estate loans are insured by the provisions of title II of the National Housing Act, all restrictions appear to be removed. The answer to this is that in sound commercial banking the question of the proper type of loans is not one of insurance and ultimate liquidation, but one of maturity and immediate liquidity. This section, like sections 206, 207, and 208, contribute to inelasticity and inflation of the currency.

5. Thus we see in title II of this bill a multitude of illustrations of the dangerous banking philosophy held by the advocates and authors of the bill. It should not be passed. It is unsound in principle and opens the way to extremely dangerous central banking practices. The conceptions underlying it run counter to the best opinion on central banking. There are no sound defenses than can be offered for the bill, and there are no reasons why it should be passed at the present time. Title II does not provide for better central banking, but it does open the way directly to political banking. Even though considerable weight

might be attached to the denials of such intent, this bill unquestionably provides the means desired by those who may decide they wish to use the system for their political purposes once the powers are placed in their hands. It would merely be the exercise of the most elementary prudence to hold all such legislation in abeyance until a carefully chosen commission had made its study and drafted its plan.

LETTER OF J. F. T. O'CONNOR, COMPTROLLER OF THE CURRENCY, TO OWEN D. YOUNG, CHAIRMAN GENERAL ELECTRIC CO.

TREASURY DEPARTMENT,
Washington, June 6, 1935.

Hon. OWEN D. YOUNG,
Chairman General Electric Co., New York, N. Y.

MY DEAR MR. YOUNG: I notice in the New York Times of May 30, 1935, in your testimony before the Subcommittee of the Banking and Currency of the Senate, with respect to the banking bill of 1935, you stated:

"As to the Comptroller of the Currency, I have always believed that the powers vested in that office should be administered by the Federal Reserve banks, but, until that is provided for, I can see many advantages rather than disadvantages from the retention of the Comptroller of the Currency on the Federal Reserve Board."

I, of course, am not familiar with your reasons for making the suggestion that the powers vested in the Comptroller should be administered by the Federal Reserve banks. However, I wish to call your attention to what I believe are some of the important objections to such a change.

The national banking system is governed by one set of Federal laws and the rulings and interpretations and regulations issued thereunder. Consequently, whatever position the Comptroller takes with respect to the many questions under the law which arise in the administration of these banks affects all of the banks alike and are applied uniformly. It would be, in my opinion, not only highly impossible but impracticable to have any uniformity or correlation if the administration were divided into 12 separate units.

Federal Reserve banks are owned by member banks. Six of the directors of such banks are elected by member banks (private interests) and should the present title 2 of the Banking Act of 1935 be enacted, the entire supervision would be in the hands of the governor of the Federal Reserve bank who would be elected by the directors. You would then have the situation of the very men in some cases, whose banks are to be examined, sitting on a board of directors of an institution charged with the responsibility of an examination of the particular institutions these men represent. It would certainly seem to be against the public policy for a man to appoint an examiner to examine his own bank.

When member banks of the Federal Reserve System either borrow or rediscount with Federal Reserve banks a creditor and debtor relationship exists and even where they are not borrowing, their reserves are carried by such banks and then a creditor and debtor relationship exists. The responsibility of supervision over banks involves the principle of trusteeship in that the supervision must be impartial and not affected by any interest of the supervisor. It is dufficult to see how Federal Reserve banks can take the responsibility of supervision when, as is frequently the case, they are the member banks' largest creditor; and how can a Federal Reserve bank deal impartially with depositors in insolvent banks in the hands of receivers if it is responsible for the appointment of the receiver and must also collect its own debt against the bank. Concrete illustration of this conflict may be found in the number of lawsuits between receivers of insolvent national banks and the Federal Reserve banks which suits are instituted at the direction of the Comptroller of the Currency to protect the interests of the depositors and to prevent the Federal Reserve banks from establishing their claims as preferred creditors. Illustration of this may be found in the case of *Vann* v. *Federal Reserve Bank, Richmond* (47 Fed. 2d, 786), and the case of *Hirning* v. *Federal Reserve Bank, Minneapolis* (52 Fed. 2d, 382).

A brief outline of the facts in these two cases is attached for your information.

These are some of the matters I have in mind and I should be glad to have your reaction to them.

Sincerely yours,

J. F. T. O'CONNOR, *Comptroller.*

In the first case, the First National Bank of St. George, S. C., was in failing condition. Representative of the Federal Reserve bank went to the national bank and presented certain checks for payment—about 10:30 a. m. on March 31. He was informed by the president of the bank that the bank was not able to pay the checks and also that the bank was making an effort to obtain money at Charleston, S. C., and that the continued operation of the bank would depend upon the success of that effort. The bank was unable to secure this money and notified the Federal Reserve representative at 4 a. m. on the morning of April 2 and asked his advice. He advised that the national bank examiner should be called and this the cashier did, informing the bank examiner that the board of directors would meet at 8:30 that morning and that they were about ready to deliver the bank to him. The bank examiner being some distance away, did not arrive until about midday. In the meantime, the representative of the Federal Reserve bank found the bank open and the officers waiting for the bank examiner to arrive. The checks were again presented and the cashier at the request of the Federal Reserve representatives thereupon paid him $8,027.02. At 10:30 o'clock the bank closed its doors by order of the board of directors and when the examiner arrived he took charge. The receiver at the direction of the Comptroller brought suit to recover this illegal preference and was successful in obtaining the money for the general depositors and creditors of the bank.

In the second case, without going into all of the details, the president of the bank after talking with the governor of the Federal Reserve Bank of Minneapolis returned to his bank and took steps to close the bank; that after the meeting of the board of directors was called and a resolution had been passed to close the bank, $13,000 in currency was packed and shipped to the Federal Reserve Bank of Minneapolis in payment of certain checks thus creating a preference in favor of the Federal Reserve Bank of Minneapolis. The receiver, at the Comptroller's direction, demanded that this amount be returned. The demand was refused and as a result suit was filed against the Federal Reserve Bank of Minneapolis and the money recovered for the benefit of the depositors and general creditors after the case had gone to the United States Circuit Court of Appeals.

THE PEOPLE'S LOBBY, INC.,
Washington, D. C., June 11, 1935.

Hon. DUNCAN U. FLETCHER,
Chairman Senate Committee on Banking and Currency,
Washington, D. C.

MY DEAR SENATOR FLETCHER: I enclose a statement which I would like to have inserted in the record of the hearings on your bill, S. 1715, as I was unable to get the committee to arrange a time when I could appear before it.

Also, may I request that your enclosed statement on this bill, read into the Congressional Record by Senator Costigan, be incorporated as part of the hearing, as I feel it is a very important and complete analysis of the purpose of the bill?

Yours sincerely,

BENJAMIN C. MARSH,
Executive Secretary.

STATEMENT OF BENJAMIN C. MARSH, EXECUTIVE SECRETARY THE PEOPLE'S LOBBY, INC.

The assumption of the proposed Banking Act of 1935 (S. 1715) introduced by Mr. Fletcher, is the continuance of the present overhead on production, to wit, capitalization of corporations, land values, and debts.

The issue raised by this bill, particularly by title II, is not whether the manipulation of credit by private banking agencies is to be ended, alone, but whether cheap credit is to be used to foster speculation in stocks and speculation in land.

There is a vital distinction between nationalizing the banking and credit system of the country, and socializing the banking and credit system of the country.

As far as the general public is concerned, it may be fleeced quite as much under the proposed Banking Act of 1935, as under the present Federal Reserve System with the private banking. To the laymen the proposed act seems to be chiefly a conflict between bank exploiters and stock gamblers and speculators in land, with the public paying the bill under the proposed bill as under the present system. Unless a direct mandate is given to Government officials for whatever it may be worth, that the credit system of the Nation is to be used to bring about an orderly and gradual but continuous deflation or reduction of land values and of overcapitalization of corporations, and some reduction in interest rates as well as principal of many mortgages, the bill will fail of the purpose of achieving a more equitable banking and credit system. Such a mandate must of course be made effective through specific and inescapable provisions of the law.

The bill, S. 1715, by Mr. Fletcher, amending the Federal Reserve System, provides in part II, page 49, section 24, that a national banking association may make loans secured by first liens upon improved real estate (line 15), but that the amount of such loans shall not exceed "60 percent of the actual value of real estate offered for security" for under 3 years, but provides (line 18): "That loans may be made in amounts not exceeding 75 percent of the actual value of the real estate offered for security", if they are to be completely amortized within not over 20 years by stipulated payments on principal with interest.

Granting power to Federal employees to make such appraisals and guess at the actual value of real estate is a unique extension of Government power. The Federal land banks, as you know, limit loans to 50 percent of the value of land and 20 percent of the value of buildings. This is quite generous.

This is important particularly as if we are to avoid a complete collapse it will be necessary for the government, local and State chiefly, to cover into the Public Treasury within the next few months, or years at the most, a very large part of the ground rent which is now retained by private land owners through taxation. The inevitable result of such taxation of land values will be to reduce the selling price of land, and therefore, under our present economic set-up, to reduce the security of loans. Just the reverse is evidently the intention of certain municipal governments in connection with the Public Works program.

Last week the mayor and tenement-house commissioner of New York City requested a loan of $150,000,000 for public housing in New York without any interest, although the city of New York has paid Vincent Astor, boon companion of the President, about $3.50 a square foot for land to house unskilled workers in New York. The irony of such a proposal of course is so obvious as to preclude its acceptance, but city and State governments will increasingly ask for Federal credit at very low rates of interest for the benefit of speculators in land, whom they are afraid to tax.

There seems danger that under the proposed Banking Act of 1935 the power of the Government to extend credit will be used to stimulate a bull stock market in connection with credit inflation. It would appear that the Government has done sufficient to save financial cats and dogs through the Reconstruction Finance Corporation and through the codes dealing with natural resources, particularly the Oil Code and the Coal Code. For this reason the bill should be definitely amended as suggested above.

Easy credit will make socialization which comports with the actual worth of natural resources, industries, and transportation, much more difficult, and will involve a much higher cost to the Government. High interest charges, on the other hand, would facilitate Government acquisition of such natural resources and natural monopolies.

With respect to insurance of deposits, it is difficult to understand by what stretch of political clairvoyance government should guarantee deposits even up to $5,000 before it guarantees employment at a reasonable wage for the employable and maintenance for the unemployable, and a fair return to farmers for the production which is essential to the national welfare.

This cannot be achieved if any attempt is made to maintain present values of real estate, present debt totals, and present capitalization of corporations.

The bill should be amended to prevent the use of government credit for any form of speculation or enhancing of property values, and to restrict it to fostering consumption and production upon which the profit is limited to a minimum. The announced purpose of the bill "To provide for the sound, effective, and uninterrupted operation of the banking system (and for other purposes)", indicates the necessity for the changes we have suggested. This should not be the major purpose of revising our banking system. The major purpose should be to increase the general welfare, not to protect property valuations.

STATEMENT OF HON. DUNCAN U. FLETCHER, OF FLORIDA, CHAIRMAN OF THE SENATE COMMITTEE ON BANKING AND CURRENCY, APRIL 21, 1935

(Printed in the Congressfoual Record of Apr. 22, 1935)

THE PROPOSED BANKING ACT OF 1935

Since the introduction of the proposed banking act of 1935 (S. 1715 and H. R. 5357), a flood of letters and telegrams have been sent to Senators and Congressmen in protest against one particular section of the bill, namely, title II. I myself have received several hundred letters which show evidences of having originated from one central office. On the face of the facts, I would say that they have been signed and mailed by persons who have neither read the provisions of the bill nor are conversant with the principles incorporated in it. For the enlightenment of probably thousands of ill-advised correspondents, I am herewith reproducing one of the "form letters":

APRIL 8, 1935.

Hon. ———,
Senate Committee on Banking and Currency,
Senate Office Building, Washington, D. C.

DEAR SENATOR ———: I hope that you will find it possible to use your influence against the banking bill (H. R. 5357, S. 1715). I believe that it endangers the development of sound banking in this country, not only because its banking principles are unsound but because it permits political control of the Federal Reserve Board and the Federal Reserve banks.

Respectfully yours,

(Signed) JOHN DOE.

On the other hand, a number of bankers, editors, pseudo economists, and so-called "financial experts" have bandied the subject back and forth in the press and through the medium of "form letter" correspondence for something like 2 months. Such tactics have resulted in a wealth of misinformation. Much of this misinformation has been deliberate and willful.

At this stage of the matter, I wish to warn the general public, and particularly the correspondents to whom I have just referred, that they must be on their guard lest they be abused as were thousands of business men by the use of similar methods against the enactment of the Securities Act of 1933 and the Securities Exchange Act of 1934. To this date there are literally thousands of well intentioned but misinformed business men who do not know the facts pertaining to the prospective issuance of their own securities under these acts. This misunderstanding is not due to defects in either of the acts or to the administration of them. It all goes back to the campaign of vicious propaganda and misinformation.

Similar results are now evidenced with respect to the proposed Banking Act of 1935. Do not be misled. This legislation will serve a public purpose and its enactment is essential to the establishment of the financial and economic security of this Nation's domestic enterprises.

As a result of having devoted much thought and study to the numerous articles which have appeared in the press and hundreds of letters which have come to my desk, I think it best that this attempt be made to explain more clearly to the public the issues which are in controversy and discuss the principles involved in order that a much clearer understanding may be had of the necessity for the passage of this piece of legislation.

In my opinion, the proposed Banking Act of 1935 is, in all probability, the most important piece of banking and monetary policy legislation with which this or any other Congress has dealt. This statement is based upon the importance of title II alone; and, curiously enough, title II of the bill is bearing the brunt of almost all the opposition made to the entire piece of legislation. Please be advised, however, that all of those who are offering concerted opposition to the bill on the basis of the incorporation of title II are almost spontaneous in their clamor for the enactment of titles I and III.

Hence, I shall deal only briefly with the first and third titles of the bill. The first title provides for the merging of temporary deposit insurance funds into permanent funds, that $5,000 be designated as the maximum insurable deposit for assessments, withdrawal from the fund, buying assets of insured closed banks, and a number of other important matters. The third title provides for "accidental" holding-company affiliates, security affiliates in liquidation, security dealers accepting deposits, employees' deposits, liquidation of assets of banks in voluntary liquidation, termination of double liability, examinations, and a number of other important matters.

Title II, on the other hand, deals almost wholly with the creation of machinery for the effective regulation of a definite monetary policy in accordance with the campaign promises of President Roosevelt based on the Democratic platform of 1932 which advocated "a sound currency to be preserved at all hazards" and proposed to put an end to "the indefensible expansion and contraction of credit for private profit at the expense of the public."

Moreover, it is a definite attempt to accomplish the ends which the President had in mind when on July 3, 1933, he stated to the American delegation to the London Economic Conference and again reaffirmed on October 22 in his address to the American people in which he stated that "when we have restored the price level, we shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generation. I said that in my message to the American delegation last July and I say it now once more."

This bill among other things provides that:

(1) "The offices of governor and chairman of the board of directors of each Federal Reserve bank shall be combined." In their places a governor and vice governor "shall be appointed annually by the board of directors, subject to the approval of the Federal Reserve Board. The governor shall be the chief executive officer of the bank."

Whereas in the original Federal Reserve Act the executive head of the bank was to have been known as chairman of the board of directors and at the same time act in the capacity of Federal Reserve agent, the active head in control of purely banking operations was to function in the capacity of a bank manager. The Federal Reserve banks gave to the bank manager the high-sounding name of "governor."

Since that time it has developed that the governor of each Federal Reserve bank has not only superseded the chairman and agent as the executive officer of the bank but has also become the virtual dictator of the Federal Reserve bank to the extent of practically controlling the election of directors who are presumed to be independent in the exercise of their power in the election of said governor. The results are obvious.

The above provision of the bill merely merges the two offices and at the same time provides for the retention of all governors and chairmen—if they are qualified and if, subject to the approval of the Federal Reserve Board, the various boards of directors elect them governor and vice governor. At the same time the language of the bill makes it clear for once that banks cannot evade or override the law through the creation of a high-sounding office and wrest control from the Board by creating a dictatorship within the Federal Reserve System.

The bill further provides that:

(2) Prior to July 1, 1937, the Federal Reserve Board may waive the capital requirements for the admission of nonmember State banks as members of the Federal Reserve System.

It is intended, through such a provision, to recognize the fact that small banks—that small State banks—are not mere "pawnshops." It is in recognition of the fact that smallness and bigness in a bank's capitalization, deposits, investments, or loans is not an indelible evidence of either soundness or weakness. The success or failure of a bank depends primarily on its management and not on its size.

It is a recognition of the fact that there are thousands of small State banks in this country which are worthy of membership in the Federal Reserve System. On the other hand, it absolutely does not provide a license for, or inducement to, the inclusion of unsound banks, or of undercapitalized banks, within the Federal Reserve System. Assuming an unbiased and unprejudiced administration of the act in accordance with the intentions of Congress, there should result no unfair treatment of, or impositions on, either State banks or national banks under the provisions of this section.

The next provision to which I wish to call your attention is: (3) "In selecting the six appointive members of the Federal Reserve Board the President shall choose persons well qualified by education or experience or both to participate in the formulation of national economic and monetary policies."

Moreover, each director is to receive a salary equal to that of a member of the President's Cabinet, and shall be retired at the age of 70 upon a retirement wage to be paid out of funds derived from levies on Federal Reserve banks.

Such a provision is conceived in the public interest. It provides for no favoritism between bankers, lawyers, economists, manufacturers, or men from any other profession. The administrative duties of a Board member are such as to require a far broader experience and basis for the exercise of sound judgment than that derived from the narrow confines of any one profession. Please note that the section reads: "The President must choose persons well qualified by education and experience, or both, to participate in the formulation of national economic and monetary policies."

That is a mandate.

The next three points to which I wish to direct your attention are of the greatest vital importance. They have to do with the Federal Open Market Committee flexibility of reserve requirements, and discounts.

They are, in order of sequence, numbered (4), (5), and (6).

(4) The creation of a Federal open-market committee consisting of 5 members, 3 of whom shall be members of the Federal Reserve Board, the other two to be governors of the Federal Reserve banks selected by all the governors of said banks. Their terms of office shall expire at the end of each calendar year. Said committee shall have supervisory control over the open-market operations of the Federal Reserve banks.

(5) The Federal Reserve Board is empowered to change the reserve requirements of member banks as to any or all Federal Reserve districts and/or any or all classes of cities and as to time and/or demand deposits.

(6) "Subject to such requirements as to maturities and other matters as the Federal Reserve Board may prescribe, any Federal Reserve bank may discount any commercial, agricultural, or industrial paper and may make advances to any such member bank on its promissory notes secured by any sound assets of such member bank."

SIGNIFICANCE OF PROVISIONS (4), (5), AND (6)

The first question which arises in connection with these three provisions is as to whether they involve a radical change in the present powers and functions of the Federal Reserve Board and the Federal Reserve System as it is now constituted. The second question is as to whether there will be established a political dictatorship of banking.

The unequivocal answer to the first—aside from a technical splitting of hairs—is "no". To the second an unequivocal answer of "no" must be given.

It is a fact that all of the powers which are by this bill centralized in the Federal Reserve Board have since the enactment of the original Federal Reserve Act existed within the Federal Reserve System. That is, all open-market powers dealt with in title II of this act exist in the present law, and were so read into the original act by the "governors" of the Federal Reserve banks, as I shall subsequently point out. But it also must be mentioned that when any or all the reserve banks, the Reserve Board, or the Treasury, through its stabilization fund, engage in open-market operations, they depart from and transcend the field of banking and become engaged in operations foreign to banking per se.

That is, when banks or the Board engage in open-market operations, they are buying and selling money; they are expanding and contracting the total volume of money; they are laying the foundation for inflation, deflation, and economic chaos if intelligence and prudence are not exercised in accordance with the sound principles of monetary science.

Such principles are not one and the same with even those of sound banking, where private profit is predominant. On the other hand, the principles of monetary science to which I refer are the principles of national monetary policy operations which absolutely must be made to conform with a public interest which oftentimes is directly opposed to the private-interest motives of bankers if they are to be administered in the interest of the general public.

DEVELOPMENT OF COORDINATIVE SYSTEM

Policy in open-market operations of Federal Reserve banks.—For your information, I want to give you a brief historical sketch of the development of open-market operations by Federal Reserve banks under the original Federal Reserve Act and the centralization of their power without any specific authorization of law.

My wish is first to narrate in terms of what might be called "bankers' technical language"; then I wish to translate it into good everyday English.

Prior to 1922, the Reserve banks, having the power to invest money, made considerable investments in the open market, buying bills and buying Government securities. The holdings of United States Government securities by Federal Reserve banks gradually increased in the early years of the System to about $300,000,000 in 1920 and were slightly smaller in 1921. Their purchase and sale of bankers' acceptances were made largely in accordance with seasonal changes in the supply of acceptances and in the demand for funds.

In 1922 Federal Reserve banks, facing a decline in earning assets because of repayments of discounts by member banks, began to buy Government securities for the purpose of increasing their earnings. It was observed that the operations of Federal Reserve banks, acting independently, were affecting the market for Government securities, and that these operations conflicted with each other and with those of the banks as fiscal agents of the Treasury.

In May 1922, at a meeting of the governors of the Federal Reserve banks, a committee was appointed to coordinate the buying and selling of Government securities so as to have a more orderly program under central control.

In October 1922 this committee undertook to make recommendations to the Federal Reserve banks regarding the purchase and sale of Government securities. It was observed in this year that purchases of Government securities did not cause an increase in the earning assets of the Federal Reserve banks, nor did sales cause a decrease, but rather that they affected the volume of borrowings at member banks. As a consequence, the conference of governors of the Federal Reserve banks voted that "investment policy should give minor consideration to the question of earnings and constant consideration to the effects which open-market operations have upon the condition and the course of the money market and the volume of credit."

On April 7, 1923, the Board advised the governors of the Federal Reserve banks formally of a resolution adopted by the Federal Reserve Board on March 22, 1923, with respect to open-market operations by Federal Reserve banks, pointing out the necessity for the coordination of open-market operations of the Federal Reserve banks with their discount operations and their general credit policy. It also announced the organization of the open-market investment committee for the Federal Reserve System. This committee consisted of five representatives of the Reserve banks and was to be under the general supervision of the Federal Reserve Board. From this time on open-market operations could not be engaged in by Federal Reserve banks, except with the approval of the Federal Reserve Board.

In March 1930 the open-market policy conference, consisting of representatives of all the Reserve banks, replaced the open-market investment committee. Under the Banking Act of 1933 the Federal open-market committee, consisting of 12 Reserve bank governors, was established.

What I have said in the immediately preceding six paragraphs is, in technical bankers' language, a correct statement of what Federal Reserve bankers did and are now doing. But in the language of the layman, this simply means that the Federal Reserve System is already engaged in all of the operations and performing all of the functions which will be required under the proposed bill; however, there is added one factor of the greatest significance to the public. We shall, through this act, definitely fix the responsibility for and the power to engage in open-market operations in the Federal Reserve Board. In the future, when money becomes "easy" or money becomes "tight" or when we are led into a period of inflation or a period of contraction and economic demoralization, we shall be able to put our finger upon the Federal open-market committee and say, "You are responsible."

May I reemphasize the fact that when the Federal Reserve banks back in 1921 and 1922 began their open-market operations "for the purpose of increasing their earnings" and later when they appointed a committee "to coordinate the buying and selling of securities in the open market", they were literally buying and selling dollars for profit. They were buying and selling dollars in just the same manner and for precisely the same purpose that hundreds of carloads of wheat were bought and sold, a hundred times over, in the Chicago wheat pit or in the street, despite the fact that the wheat was in freight cars and stood on the railroad sidings for days, weeks, even months without once having been moved. That is, the open-market committee was dealing in previously created credit obligations for profit and eventually awakening to the fact they were shooting the price structure to pieces, upsetting the financial plans of the Government, disrupting business, and confusing the bankers. Through this act we propose to introduce responsibility for such activities—in fact, to command that the necessary operations must be engaged in at the direction of the Federal open-market committee with a mandate laid down for the orderly conduct of such operations in the public interest.

To what extent is this the introduction of a new principle into the law? The answer is: "It is not new."

Section 8 of the Banking Act of 1933 provided for the insertion of a new section in the Federal Reserve Act, to wit:

"There is hereby created a Federal open-market committee * * *" immediately followed by subsections (b), (c), and (d), which made all open-market operations subject to "regulations adopted by the Federal Reserve Board." Based upon the latter fact, I insist that the proposed title II does not in any way increase the political control over the operations of the Federal Reserve Board, the Federal Reserve banks, or of member banks. On the contrary, the law remains as it has been for over 20 years. Under the above provisions of subsection (d) any Federal Reserve bank might be excused from participation provided it "filed with the chairman of the committee, within 30 days, a notice of its decision, * * * not to participate." In this respect our proposal is to strike out the exception and leave the power to initiate action with the Board.

Now, what of the flexibility of reserves provided for in the bill?

May I remind you that the same Congress which enacted the Banking Act of 1933 wrote a similar clause into Public, No. 10 (in that part known as the Thomas amendment), a provision for the "increase or decrease from time to time, in its discretion, the reserve balances required to be maintained against either demand or time deposits."

On this point, the proposed Banking Act of 1935 gives recognition to the fact that there is no safety to be found in arbitrary judgment or arbitrary figures with respect to the reserves or either Federal Reserve banks or of member banks. Several hundred years ago the goldsmiths retained 100 percent reserves. Later they arbitrarily reduced their reserves. England has no such arbitrary reserve requirements established by law. This country has progressively found it advisable to reduce the legal reserve requirements for even commercial banks from an arbitrary figure of 50 to 40 to 25, until now they stand at 13, 10, and 7 percent on demand deposits of commercial banks, depending upon the size of cities in which they are located.

No banking dictatorship created

The powers referred to in no. 6 as I am designating them cannot and should not be construed as the creation of a Federal Reserve Board dictatorship over purely banking operations of the Federal Reserve banks and their member banks. In this respect the Board's directions to banks are either permissive or prohibitive as to all purely banking operations. Within these two extremes all actions with respect to purely banking matters are left to the discretion of Federal Reserve banks and their member banks. That is, bankers will decide as to whether they shall or shall not make loans or investments which lie purely within the field of banking operations, such as whether loans shall or shall not be made to an individual or corporation, or a mortgage purchased, or the calling of a loan. And it is likewise left to the Federal Reserve bank as to whether it shall or shall not rediscount any of the paper of a member bank, or make a loan to said member bank upon any of its sound assets.

The next provision to which I wish to refer is:

(7) "Federal Reserve notes are to be issued by the Federal Reserve bank and retired under such rules and requirements as the Federal Reserve Board may prescribe."

From the orthodox banking point of view such a provision is sound. Banks are not opposing this feature of the bill.

The next and last provision to which I wish to make a specific reference is:

(8) National banks will be permitted to "make loans, securedby first liens upon approved real estate, including improved farm lands and improved business and residential properties."

This is a long-established principle. Do you want it stricken out, or do you have some arbitrary limit you think should be fixed? This is definitely up to the Congress. We must choose reasonable limits. What is your suggestion?

It is because of the above provisions incorporated in title II that the American Bankers Association, a number of the State bankers' associations, and numerous bankers and economists throughout the country are making a concerted effort to divide the bill and enact titles I and III, alleging that said title II effects radical changes in the banking laws of the Nation.

May I point out that, with one or two exceptions, all of the above requirements have to do with the control over the monetary policy of the country. Monetary-policy operations cannot and should not be merged with purely banking operations.

The administration of a monetary policy has to do with the contraction and expansion of the credit and currency of the country and directly affects the purchasing power of money. This function transcends those of banking, farming, manufacturing, or that of any other business activity. It literally controls the economic and social welfare of the whole Nation. Traditionally, to be sure, this function has been turned over to banks and bankers who have operated it without direct responsibility to anyone. We propose, as I have previously pointed out, to centralize the powers and responsibilities in the Federal Reserve Board.

There are literally thousands of bankers in this country whose heads are bowed in humiliation and shame. They are blamed for the vicious results, many of which they are not able to rationalize. They have had their lines of credit shut off or have experienced the withdrawal of huge sums of money upon demand. In turn they have been forced to try to call in loans which they oftentimes have made with the greatest of caution and deserved confidence, to be peremptorily thrown into the maelstrom of a financial panic, contraction, or depression.

Among them, however, there have been a few bankers "in the know" and also in a dominant position for laying down the rules for making money "tight" or "easy"—of literally determining the trend—yet the latter have not personally been singled out nor can they, under our present system, be called to account for the disastrous results of their acts. It is my earnest desire that the fifteen or twenty thousand bewildered bankers, who have never known and never will know what it is all about, demand that this great destabilizing and disturbing factor of monetary policy shall be separated from banking per se and placed in the hands of men who must and who shall be held responsible and accountable for their acts. Undoubtedly in this great Nation we can find at least 5 or 8 men, depending upon the final provisions of the act, who know what it is all about and can be trusted to administer our monetary policy intelligently and with the greatest amount of integrity and respect for the people, and act for the public welfare.

Bankers as a whole are not qualified to determine nor competent to administer our monetary policy. They have not been able to discern the difference between purely banking functions and monetary policy operations. As a whole they have known only that money was "easy" or money was "tight" without knowing the "whys" and "wherefores" and have been wholly ineffectual if not irresponsible in the administration of our monetary policy.

We have been sifting and winnowing the basic facts for the past 6 long years. We know the facts. We have weighed the evidence. We have made up our minds as a result of the collapses of 1920 and 1929. None of the opposition will dispute the facts. They cannot deny them. If they have not made up their minds after 6 years, we have little promise that they will have anything to offer after another 2 years.

It is common knowledge, however, that there now lies within the hands of bankers the potential makings for one of the most stupendous inflations this or any other Nation has ever experienced. And experience teaches us that banker control of monetary policy will probably give us an equally devastating financial whirlwind when that bubble is pricked.

This bill is conceived as our most essential safeguard.

[From the New York Times, Apr. 21, 1935]

FLETCHER ATTACKS BANKERS, DECLARES OMNIBUS BILL NEED—"AS A WHOLE, THEY ARE NOT QUALIFIED TO DETERMINE OUR MONETARY POLICY", HE SAYS—HOUSE REPORT IS FILED—ASKS PASSAGE IN ECCLES' FORM—MINORITY CALLS RESERVE CHANGES DANGEROUS

WASHINGTON, April 20.—Opening a campaign to put the omnibus banking bill through the Senate, Chairman Fletcher, of the Senate Banking and Currency Committee, struck out today against a "flood of letters and telegrams" attacking the measure, which, he said, has been sent to Congress Members.

In support of the bill's proposal to lodge control of open-market operations, discount rates, and member bank reserve requirements in the Federal Reserve Board, he declared in his statement that "bankers, as a whole, are not qualified to determine, nor competent to administer, our monetary policy."

"They have not been able to discern the difference between purely banking functions and monetary-policy operations", he said. "As a whole, they have known only that money was 'easy' or money was 'tight', without knowing the whys and wherefores, and have been wholly ineffectual, if not irresponsible, in the administration of our monetary policy."

BILL REPORTED IN HOUSE

As this defense was voiced from the Senate side, the House Banking and Currency Committee filed its report recommending passage of the bill in substantially the form it was drafted by Marriner S. Eccles, Governor, and other officials of the Federal Reserve Board. A minority report filed by the seven Republican members of the committee recommended that the bill be not passed if it contained the title II reorganizing the Federal Reserve System and broadening powers of the Federal Board.

The fight in both branches will center around this portion of the bill as title I and III have aroused little opposition. Senator Glass, chairman of the subcommittee which is now holding hearings on the bill, has predicted that his group would take title II out of the bill and reserve it for further consideration.

Senator Fletcher has predicted with equal emphasis that the full committee would put title II back in the bill, and that the Senate would pass it in the form he said President Roosevelt told him he wanted it.

FLETCHER SEES PUBLIC BENEFIT

"This legislation will serve a public purpose and its enactment is essential to the establishment of the financial and economic security of this Nation's domestic enterprises", Mr. Fletcher's statement said.

"Title II deals almost wholly with the creation of machinery for the effective regulation of a definite monetary policy in accordance with the campaign promises of President Roosevelt based on the Democratic platform of 1932, which advocated 'a sound currency, to be preserved at all hazards', and proposed to put an end to 'the indefensible expansion and contraction of credit for private profit at the expense of the public.'"

Asserting that the control of monetary policy must be placed in the hands of men who can be held accountable and responsible for their acts, Senator Fletcher declared that "when banks or the board engage in open-market operations they are buying and selling money; they are expanding and contracting the total volume of money; they are laying the foundation for inflation, deflation, and economic chaos if intelligence and prudence are not exercised in accordance with the sound principles of monetary science."

REPUBLICANS ISSUE WARNING

The Republicans said in the House minority report that "no emergency has been shown requiring the passage of the title II."

"No immediate need for it has been evidenced," they continued. "The inherent dangers in it are obvious. Its presence in the bill jeopardizes the early passage by Congress of titles I and III."

The minority report was signed by Representatives Hollister, of Ohio; Wolcott, of Michigan; Cavicchia, of New Jersey; Fish, of New York; Gifford, of Massachusetts; Dirksen, of Illinois; and Fenerty, of Pennsylvania.

The two titles of which they approved, dealing with a permanent Federal deposit insurance system, to be eligible for which State nonmember banks do not have to join the Federal Reserve System, and clarification of technical details of the existing Federal Reserve Act, are generally conceded to be noncontroversial.

"One of the things most dreaded today by thinking people is the possibility of weakening, or perhaps the collapse of Government credit because of continued deficits," the minority said in commenting on the open-market powers the bill proposes to confer on the Federal Reserve Board.

"Government financing should be on the same basis as private financing—that is, a free and open market, where the savings of the people are voluntarily used in the purchase of Government obligations. Wherever the Government is in a position to compel the use of the savings of the people to acquire such obligations, such financing becomes a forced loan and is one of the most vicious inroads on liberty."

OPPOSE "FORCING" BANKS

"Weakening of the market for Government obligations is a danger signal in the spending program of any government, and this bill would make it easy to ignore such a danger signal. What most people do not realize is that whenever banks may be forced to acquire Government bonds against their will or at rates which they would not recognize if the transaction were voluntary, as far as the actual credit of the Government is concerned deficits might just as well be financed by fiat money."

Mr. Hollister and his colleagues made much of this argument during the long hearings on the bill. Mr. Eccles at that time replied that the intent of the proposed open-market powers was not to force banks to buy Government obligations and pointed to the ease with which the Treasury has aready carried through important refinancing operations.

The Republican report remarked that "open-market operations are always conducted for all the banks by the New York Federal Reserve Bank, for New York is the money and bond market of the country."

URGES FURTHER STUDY

"If this new provision becomes law, it means that the resources of the Federal Reserve banks from the 12 districts may be drained to New York for the purpose of acquiring bonds, no matter how unwise it might appear to bankers generally," the minority went on. "Thus the board of a particular Federal Reserve bank might consider that it was already overloaded with Government bonds and yet be forced to buy more."

They recommended further study of the contents of title II, calling it a "clear example of hasty and ill-advised legislation on a matter of vital importance to the country." They also condemned the proposed power to control Reserve requirements.

"The right to raise is the right to curtail or even stop entirely the normal banking function of lending," the report said. "The right to lower brings the possibility of endangering deposits by requiring insufficient reserves. Neither power should be lightly exercied."

House leaders predicted that the bill would pass practically as reported, with the chief fight on the floor centering on defeating radical amendments, including those for the "commodity dollar", fixed-price levels, and other such proposals of the sort.

[From the Baltimore Sun, Apr. 21, 1935]

BANKING BILL CALLED VITAL BY FLETCHER

(By C. P. Trussell)

WASHINGTON, April 20.—Banking today took the center of the Washington legislative stage.

Routed in every attempt it made during the last 8 legislative days to strip the principal features from the social security bill, which it finally helped to pass yesterday, the House Republicans turned their guns against the omnibus banking measure, just emerging from the committee.

3,500-WORD STATEMENT BY FLETCHER

Almost immediately there came from the other side of the Capitol a 3,500-word statement from Senator Fletcher (Democrat of Florida), Chairman of the Senate Committee on Banking and Currency, in which he warned:

"There now lies within the hands of bankers the potential makings for one of the most stupendous inflations this or any other Nation has ever experienced. And experience teaches us that banker control of monetary policy will probably give us an equally devastating financial whirlwind when that bubble is pricked."

CALLED ESSENTIAL SAFEGUARD

"The omnibus banking bill is conceived as our most essential safeguard."

His defense of the measure centered almost wholly upon the so-called "central bank section." That part of the bill is being attacked not only by the Republicans but also is the subject of a Nation-wide protest which the Florida Senator denounced as an organized movement.

"Bankers", Senator Fletcher said, "are not qualified to determine nor competent to administer our monetary policy.

"They have not been able to discern the difference between purely banking functions and monetary-policy operations. As a whole they have known only that money was 'easy' or money was 'tight', without knowing the 'whys' and 'wherefores' and have been wholly ineffectual if not irresponsible in the administration of our monetary policy."

FACTS CANNOT BE DENIED

"We have been sifting and winnowing the basic facts for the past 6 long years. We know the facts. We have weighed the evidence. We have made up our minds as a result of the collapses of 1920 and 1929. None of the opposition will dispute the facts. They cannot deny them."

The pending bill, identified as the Banking Act of 1935, is the next piece of legislation on the administration's "must" program to be tackled by the House. Whether it is actually an administration instrument has been a subject of heated debate between Senator Glass (Democrat of Virginia), of the Senate Banking Committee, and Representative Steagall (Democrat of Alabama), chairman of the same committee of the House.

ALSO HELD REPLY TO GLASS

Senator Fletcher's statement was received in some quarters not only as a reply to Republican and banking opposition to the pending bill but to the Virginian, who has maintained the measure is only sponsored by Marriner S. Eccles, Governor of the Federal Reserve Board, rather than by the President.

"Title II," said Senator Fletcher of the controversial section of the banking bill, "deals almost wholly with the creation of machinery for the effective regulation of a definite monetary policy in accordance with the campaign promises of President Roosevelt based on the Democratic platform of 1932, which advocated 'a sound currency to be preserved at all hazards' and promised to put an end to 'the indefensible expansion and contraction of credit for private profit at the expense of the public.'"

CITES ROOSEVELT'S PROMISE

Mr. Fletcher also declared the measure was a "definite attempt" to accomplish the ends "which the President had in mind" when, on July 3, 1933, he stated to the American delegation to the London Economic Conference, and again reaffirmed on October 22 in his address to the American people in which he stated that:

"When we have restored the price level we shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generation."

Senator Fletcher's statement made categorical reply, although he did not refer to it, to an arraignment of title II in the first legislative report to be made in connection with the banking measure.

VIEW SIMILAR TO THAT OF GLASS

Without waiting for the release of the majority report of the House Banking Committee, which was sent to the printers this afternoon, the Republican members of that body made public their minority report. It asked for complete elimination of the central-bank section.

Taking a view similar to that of Senator Glass, this report asserted:

"The present title II is not even the original title II as presented in the bill, but is almost without change an amended title II submitted by Governor Eccles after he had entirely completed his testimony before the committee.

"While the committee was assured that the first draft was the joint work of all the various financial departments of the Government, and had their joint approval, we have no assurance that title II in its amended form has received any approval except that of Governor Eccles, or has even been submitted to anyone else."

TWO SECTIONS HELD SATISFACTORY

Title I, providing for the merging of temporary F. D. I. C. funds into permanent ones and keeping the deposit insurance maximum at $5,000, and title III, making various changes in the present banking statute, including termination of double liability, were found by the minority committeemen to be "in the main" satisfactory.

"But title II," their report added, "while containing some provisions of merit, is in its entirety such a radical departure from the sound principles of central banking that the evils it contains more than counteract the advantages of title I and title III."

BASIS OF MINORITY OBJECTIONS

The minority objections centered upon:

Changes in control of the Governor and Vice Governor of the Federal Reserve Board and the governors of the Reserve banks.

Increasing the power of the Federal Reserve Board.

"Too great liberalization" of the discounting and borrowing provisions of the Federal Reserve member banks.

CITES BANK OF ENGLAND AS EXAMPLE

The present separation of the Reserve banks from Federal control, the minority maintained, "is in accordance with the central banking practice in most of the more highly civilized countries under a democratic form of government", and cited the Bank of England as an example.

"Conversely," the report continued, "countries under close dictatorship, like Italy and Russia, have central banks entirely under government domination. One of the first and essential steps in any dictatorship is to extend power over the credit resources of the country."

To realize the full effect of the proposed changes in control of governors of the Board and the Reserve banks, the committeemen asserted, "it must be remembered that the governor has always been the dominant figure on the Board, and the Board is thus made more subject to control by the Executive (the President).

FLETCHER EXPLAINS PROVISIONS

"The bill provides", said Senator Fletcher, "that the offices of governor and chairman of the board of directors of each Federal Reserve bank shall be combined. In their places a governor and vice governor shall be appointed annually by the board of directors, subject to the approval of the Federal Reserve Board. The governor shall be the chief executive officer of the bank."

CALLS GOVERNORS VIRTUAL DICTATORS

"Whereas in the original Federal Reserve Act the executive head of the bank was to have been known as 'chairman of the board of directors' and at the same time act in the capacity of Federal Reserve agent, the active head in control of purely banking operations was to function in the capacity of a bank manager, the Federal Reserve banks gave to the bank manager the high-sounding name of 'governor.'

"Since that time it has developed that the governor of each Federal Reserve bank not only has superseded the chairman and agent as the executive officer of the bank, but has also become the virtual dictator of the Federal Reserve bank to the extent of practically controlling the election of directors who are presumed to be independent in the exercise of their power in the election of said 'governor.'

"The results are obvious.

"The bill merely merges the two offices and at the same time provides for the retention of all governors and chairmen—if they are qualified—and the various board of directors elect them governor and vice governor.

REPLIES TO G. O. P. CRITICISM

Replying to the Republican charge that under the bill the Federal Reserve Board would become the open-market committee with its decisions as to the buying and selling of Government bonds "mandatory on all" of the Reserve banks, Senator Fletcher said:

"We shall, through this act, definitely fix the responsibility for and the power to engage in open-market operations in the Federal Reserve Board. In the future when money becomes 'easy' or money becomes 'tight' or when we are led into a period of inflation or a period of contraction and economic demoralization, we shall be able to put our finger upon the Federal open-market committee and say, 'you are responsible.' "

FORESEE DANGER TO DEPOSIT

The Federal Reserve Board, acting "perhaps by a bare majority of a bare quorum", the Republicans held, could raise or lower reserve requirements at will, and they added:

"The right to raise is the right to curtail or even stop entirely the normal banking functions of lending. The right to lower brings the possibility of endangering deposits by requiring insufficient reserves."

Replying to this, Senator Fletcher said:

"The proposed banking act gives recognition to the fact that there is no safety to be found in arbitrary judgment or arbitrary figures with respect to the reserves of either Federal Reserve banks or of member banks. * * * England has no such arbitrary reserve requirements established by law. This country had progressively found it advisable to reduce the legal reserve requirements for even commercial banks from an arbitrary figure of 50 to 40 to 25, until they now stand at 13, 10, and 7 percent on demand deposits of commercial banks, depending upon the size of the cities in which they are located."

RADIO COLLOQUY BETWEEN HON. DUNCAN U. FLETCHER AND SHERMAN MITTELL IN THE BROADCAST, "AN AMERICAN FIRESIDE", APRIL 28, 1935

[Printed in the Congressional Record Apr. 30, 1935]

OPENING ANNOUNCEMENT

An American fireside. Our guest at an American fireside tonight is the Honorable Duncan U. Fletcher, United States Senator from Florida and Chairman of the Senate Committee on Banking and Currency, who will talk with Sherman Mittell, of the National Home Library Foundation. Mr. Hapgood is unable to be with us tonight but will be back again next Sunday.

Mr. Mittell has just greeted Senator Fletcher and they are seated around the fireside.

Mr. Mittell is speaking.

Mr. MITTELL. A number of these half hours are given over to discussing the problems of democracy. Senator Fletcher, more and more we begin to see that our national problems are tied up with correcting the errors of the past. While our frontier was open we could develop without worrying about consequences or the future. With a closed frontier and with a nation well-knit, we begin to see more and more that our commercial and industrial activities affect the very foundations of our social well-being. The history of banking hasn't been any too fortunate for the American people and for some reason or other Americans have always felt, until recently, that it was a field beyond their common everyday knowledge and concern. Our last tragic experience, I believe, has opened the eyes of the people to the realization that without a sound banking system it cannot have a safe, economic, or secure social life.

Justice Brandeis has told us in that memorable book—Other People's Money and How the Bankers Use It—which was written 20 years ago and which today is a classic in democracy, how the control of the private bankers, particularly a handful of men, constituted a strangle hold on our industrial life. This book, as you know, was written immediately after the Pujo investigation in 1913. It is the opinion of many that had his advice been taken and his warnings heeded, we should not have been thrown into the tragic situation we experienced 20 years later, affecting disastrously millions of people.

For 2 years your committee, with you as its chairman, carried on an investigation of our banking practices that has already led to banking reform. Last year Senator Cutting introduced an excellent bill that went a step further, but, Senator Fletcher, what is the most important piece of legislation on your committee's calendar at this time, and can you tell us something of that?

Senator FLETCHER. In my opinion, the proposed Banking Act of 1935 is, in all probability, the most important piece of banking and monetary policy legislation with which this or any other Congress has dealt. Hearings are now being held, and within a short time the committee will attempt to perfect this piece of legislation.

In connection with this bill, I think it's of interest to note that numbers of people misunderstand its purpose. Few of them have read the bill, due, probably, to the pressure of personal business.

Mr. MITTELL. Senator Fletcher, I understand that the bill is, like all Gaul, divided into three parts; title I dealing with amendments to the deposit-insurance law, the main provision of which is that of establishing the maximum insurable deposit at $5,000.

Senator FLETCHER. That is correct.

Mr. MITTELL. And that title III carries a number of amendments to various banking provisions. I also understand that bankers, a number of bankers' associations, some economists, editors, and financial writers support these two titles. On the other hand, numbers of these people whom I have just mentioned are opposed to title II. If my statement is correct, Senator, I should think you would like to explain to us just why you think "the proposed Banking Act of 1935 is in all probability the most important piece of banking and monetary policy legislation with which this or any other Congress has dealt."

Senator FLETCHER. I base that statement upon the importance of title II alone; and it is title II of the bill which is bearing the brunt of almost all the opposition made to the entire piece of legislation.

The general public must not be misled. This legislation will serve a public purpose, and its enactment is essential to the establishment of the financial and economic security of this Nation's domestic enterprises.

Mr. MITTELL. Suppose you outline it more fully, Senator Fletcher.

Senator FLETCHER. Title II deals almost wholly with the creation of machinery for the effective regulation of a definite monetary policy in accordance with the campaign promises of President Roosevelt. Those promises were based on the Democratic platform of 1932, which advocated "a sound currency to be preserved at all hazards" and proposed to put an end to "the indefensible expansion and contraction of credit for private profit at the expense of the public."

Moreover, it is a definite attempt to accomplish the ends which the President had in mind, when, on July 3, 1933, he stated to the American delegation to the London Economic Conference and again reaffirmed on October 22 in his address to the American people, in which he stated that:

"When we have restored the price level, we shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generation. I said that in my message to the American delegation in July and I say it now once more."

May I point out that, with one or two exceptions, title II of the bill deals with the control over the monetary policy of this Nation. Such monetary-policy operations cannot and should not be merged with purely banking operations.

Mr. MITTELL. Pardon me, Senator, may I ask that you explain a little more fully your last statement to the effect that "monetary-policy operations cannot and should not be merged with purely banking operations"?

Senator FLETCHER. Certainly. The distinction must be kept clearly in mind.

The administration of a monetary policy has to do with the contraction and expansion of the credit and currency of the country and directly affects the purchasing power of money. This function transcends those of banking, farming, manufacturing, or that of any other business activity. It literally controls the economic and social welfare of the whole Nation. Traditionally, to be sure, this function has been turned over to banks and bankers who have operated it without direct responsibility to anyone. We propose to centralize the powers and responsibilities for the total expansion and contraction of currency and credit in the Federal Reserve Board.

Mr. MITTELL. Senator, what are those matters that have to do with purely banking operations?

Senator FLETCHER. Purely banking operations have to do with the direct lending of the bank's cash or credit to borrowers in which the major interests of the banker or bankers must always be concerned with the character of the borrower, security for the loan, and the uses to which the borrower is going to put the cash or credit he obtains from the bank.

A loan made by a bank is definitely an investment of the bank's cash or credit just as is the purchase of Government bonds, a mortgage, or any other type of paper representing either ownership in or obligations on a piece of property, are investments of a bank.

Such transactions as I have enumerated go to make up purely banking operations and to the extent that a banker engages in these transactions, he should be held strictly accountable for their soundness. And in order that we may be assured that bankers are conforming with the law and the rules and regulations made by the various examining agencies created by the Federal Government and the 48 State governments, bank examiners periodically examine the banks as to the soundness of their assets and the legality of their operations.

Mr. MITTELL. Senator Fletcher, haven't we heretofore had bank examiners do the thing you are now asking should be done?

Senator FLETCHER. We have had bank examiners and expect to retain them. But bank examiners pass upon the soundness of an individual loan or investment of a bank, and finally upon the soundness of the bank as a whole. But the generative forces to which I refer are of such a nature as to affect the total volume of all loans, investments, and deposits of all banks at one and the same time, irrespective as to whether those loans, investments, and deposits are or are not sound. These forces are such as to increase that volume, or decrease that volume, irrespective of the soundness of the work done by bankers or by bank examiners.

May I stress the fact that even though bankers and bank examiners use the greatest amount of discretion in making and supervising the loans and the investment of the bank's funds, it is possible to undermine and even destroy all of their painstaking efforts by bringinig about, through open-market operations, rediscount rates, and control over reserves, a contraction of the total volume of credit and currency outstanding.

Mr. MITTELL. Then you do not blame bankers as individuals for our difficulties?

Senator FLETCHER. No; of course not. There are literally thousands of bankers in this country whose heads are bowed in humiliation and shame. They are blamed for the vicious results, many of which they are not able to rationalize. They have had their lines of credit shut off, their reserves reduced, or have experienced the withdrawal of huge sums of money upon demand. In turn they have been forced to try to call in loans which they oftentimes have made with the greatest of caution and deserved confidence, to be peremptorily thrown without warning into the maelstrom of a financial panic, contraction, or depression.

Mr. MITTELL. Do you hold all bankers more or less blameless?

Senator FLETCHER. No. Among them there have been a few bankers "in the know" and also in a dominant position for laying down the rules for making money "tight" or "easy"—of literally determining the trend—yet the latter have not personally been singled out, nor can they, under our present system, be called to account for the disastrous results of their acts. It is my earnest desire that the fifteen or twenty thousand bewildered bankers, who have never known and cannot be expected to know why money is "tight" or "easy", demand that this great destabilizing and disturbing factor of monetary policy be separated from banking per se and placed in the hands of men who must and who shall be held responsible and accountable for their acts. Undoubtedy in this great Nation we can find at least 5 or 8 men, depending upon the final provisions of the act, who know what it is all about and can be trusted to administer our monetary policy intelligently and with the greatest amount of integrity and respect for the people and to act for the public welfare.

Mr. MITTELL. Senator Fletcher, I think I see your point, but I wonder if you can't explain to us somewhat more clearly the relative position of a banker or bankers to the expansion or contraction of the total volume of credit and currency?

Senator FLETCHER. Very well; I think that relationship should be explained very clearly.

In the first place, it should be explained that about 90 or 95 percent of our total money supply is in the form of bank credit.

The remaining 5 or 10 percent is made up of legal-tender currency. For all normal business needs bank credit serves all of the functions of money. Hence, whenever bankers increase or decrease the total supply of bank credit, they are for all intents and purposes increasing or decreasing the supply of our money.

The total supply of bank credit outstanding at any particular time is expressed in terms of the total deposits of all banks. When bankers make loans they increase the total amount of bank credit outstanding by increasing the amount of their customers' deposits. Likewise, when loans are paid off or bankers call loans for payment, the total amount of bank credit is reduced.

Mr. MITTELL. Senator Fletcher, are there any "rules of thumb", so to speak, which control the total expansion or contraction of bank credit during periods of normal business conditions?

Senator FLETCHER. In periods of normal business conditions bankers are permitted to have deposits outstanding in any amounts not to exceed the maximum permitted under either a banker's "rule of thumb" or a comparable statutory "rule of thumb." Either of these "rules of thumb", which I shall subsequently explain, afford us no ultimate protection against the overexpansion, even "inflation", of bank credit, as I shall point out. The first "rule of thumb" I wish to explain is that which the Comptroller of the Currency and bankers through long experience have been applying to the capital structure of a bank in comparison with its total outstanding deposits. It has received quite a bit of attention during the last 2 or 3 years on the part of the Comptroller in his attempt to bring the capital structure of a bank in line with its total deposits and has resulted in the sale of either the preferred stock or debentures of a bank to the Reconstruction Finance Corporation, where private subscription could not be had. Under this rule, bankers are permitted to have deposits outstanding not to exceed 10 times their capital, surplus, and undivided profits.

Mr. MITTELL. Can you express that rule in terms of figures for us, Senator Fletcher?

Senator FLETCHER. That means that if the total capital, surplus, and undivided profits of all banks in the country is $5,000,000,000, then the banks of the country cannot have deposits outstanding in excess of $50,000,000,000.

To make it more concrete, may I remind you that on June 30, 1934, the total amount of capital, surplus and undivided profits was approximately 7½ billion dollars. That would mean that the banks would be permitted under normal business conditions to expand their deposits in an amount not to exceed $75,000,000,000. On that date, however, the total of deposits stood at 46½ billions. If we considered only the 10-to-1 "rule of thumb", bankers would in the course of time be permitted to increase their deposits some $30,000,000,000. However, before they reach that maximum of $75,000,000,000 they will, of course, have to give immediate consideration to the building up of what is known as their reserves.

Mr. MITTELL. What is the evident weakness of such a 10-to-1 "rule of thumb"?

Senator FLETCHER. The weakness of the above 10-to-1 "rule of thumb" is that the limitation on the expansion of the total amount of bank credit outstanding is a fleeting fantasy, for the reason that bankers may and will increase their capital, surplus, and undivided profits solely in the interest of private profits. That power absolutely must be exercised and controlled in the public interest and not for private profit.

Under such a rule, the total of bank credit outstanding may range between two extremes where the upper limit is 10 times the variable factor of capital, surplus, and undivided profits; and the lower limit of contraction, destruction, and deflation of bank credit is an absolute zero.

Mr. MITTELL. It does not seem the 10-to-1 "rule of thumb" of the bankers and the Comptroller affords us much security.

Senator FLETCHER. That leads us to the consideration of a statutory "rule of thumb" incorporated in the Federal Reserve Act and subject to a comparable limitation from the point of view of safety, security, or protection of the public interest if the instruments, the power, and the responsibility for the administration of our monetary policy are not placed in a competent and responsible administrative body.

Mr. MITTELL. You mentioned reserves, Senator Fletcher, and I recall there was some statutory provision in that connection. What has been the result of our experience under the statutory rule?

Senator FLETCHER. As a result of bitter experience, a fixed statutory rule has proven to be unsatisfactory. Under it in times of normal business conditions the total supply of bank credit outstanding at any particular time is determined by the volume of bank reserves and the required reserve ratio which is, roughly for all deposits, another 10-to-1 ratio; and is almost as unsatisfactory from the point of view of the public's security when left to the control of banks and bankers as has been demonstrated with the first "rule of thumb." The public's safety, security, and welfare are not adequately protected in this "rule of thumb" which is expressed in terms of an arbitrary ratio, yet variable item of "required reserves."

Mr. MITTELL. Why do you say bank reserves are a variable item, Senator Fletcher?

Senator FLETCHER. Bank reserves are variable for the reason that they can be increased through gold imports, inflow of currency from circulation, or receipt of Federal Reserve funds. Hence the banking system as a whole will be able to increase the total volume of bank credit outstanding by approximately 10 times the amount of increased reserves. Inversely a loss of reserves has a tendency to result in a tenfold contraction of bank credit.

To make this observation more concrete, may I recall certain years of depression, when banks were suffering severe losses of deposits and reserves. The banks, in order to meet reserve deficiencies, were forced to curtail loans and investments, with the result that fully one-third of our supply of bank money was destroyed. Thus, at the very time when the rate of spending was declining, the volume of money available for spending was also being destroyed with disastrous effects on business activity, employment, and national income.

Mr. MITTELL. Senator Fletcher, may I interrupt your discussion for the moment and ask as to how banks are situated with respect to required reserves?

Senator FLETCHER. At the present time the member banks alone hold approximately two billions of excess reserves, which would permit them to expand their deposits by approximately $20,000,000. Nonmember banks possess additional powers for the expansion of bank credit. Even thirty billions of expansion is not the maximum, for the reason that reserves are in turn built up through the sale or rediscounting of banker-created credit obligations to the banker-owned and banker-controlled Federal Reserve banks. It is evident that this situation has the possibilities of an unsound expansion of bank credit for private profit.

Mr. MITTELL. If I understand you correctly, it is possible to have a thirty-billion-dollar inflation of bank credit?

Senator FLETCHER. Yes. At some time in the future they will at least have built up their deposits to a maximum of, we might say, sixty-five, seventy, or even seventy-five billions of dollars. This they can do only by literally creating credit money. Such a process of building up deposits is commonly termed "expansion of credit", and consists of the extension of loans by commercial banks to their customers by giving them credit on the books of the banks.

During a period of contraction the reverse takes place. What we have is an actual wiping out of—or the destruction of—these credits through the calling of loans and the refusal of banks to extend further credit where obligations have matured.

Mr. MITTELL. Just at that point, Senator Fletcher, permit me to ask to what extent has the contraction or destruction of bank credit taken place since the collapse of 1929?

Senator FLETCHER. The destruction of bank credit alone amounted to over $20,000,000,000 between October 1929 and December 1933. This paralyzed all business. The cumulative results upon our national income have been likewise disastrous. At the darkest hour of this depression we were losing in excess of $4,000,000,000 monthly in national income. The total loss of national income during the 6 years of this depression will amount to probably $150,000,000,000. Such an amount is in addition to the physical suffering and mental anguish of millions of our unemployed and other millions dependent upon them.

The aim is to end this sort of thing.

Mr. MITTELL. Thank you, Senator. That answers my question. Please proceed with your general discussion of the expansion and contraction of bank credit.

Senator FLETCHER. The general policy of expansion of bank credit by all banks arises during a period of what is known as "easy money", and takes place after a definite easy-money trend is established. A reversal of the trend is referred to as money being "tight" and is accompanied by a contraction of loans and a reduction in the total of bank credit outstanding. The process of establishing these trends is the very heart of what has become known as "monetary policy operations." Such operations vitally affect the economic life of the Nation. The results of these operations have had ascribed to them the colorful names of periods of prosperity, booms, crises, panics, and depressions. Much more inclusive terms have been used, however, such as "periods of expansion" and "periods of contraction."

Mr. MITTELL. What part does the individual banker play in these periods of expansion and contraction, or of creating them?

Senator FLETCHER. Individually they have almost nothing to do with the creation of the up or down trend. After the up trend is established, however, bankers may or may not follow the trend by increasing their loans and coincidentally increasing their deposits at the same time that all other banks are expanding. On the other hand, when a period of contraction sets in, every banker, must in self-defense, not only refuse to extend further loans, but more often is forced of necessity to call loans and refuse to permit the extension of the life of loans which are at the time outstanding.

Mr. MITTELL. Then, Senator, you are not condemning bankers individually, but, on the other hand, are offering a defense of them, are you not?

Senator FLETCHER. That is correct, except to the extent they have failed to recognize the facts which I am now pointing out. It would seem that the American Bankers' Association and their connections might have—as a result of a thorough analysis of the facts—ameliorated, if not prevented, the paralyzing contraction of bank credit so disastrous to this Nation.

Mr. MITTELL. Who then, is responsible; and at what forces is this bill directed?

Senator FLETCHER. Title II of the bill does not deal with banks or bankers individually. It deals with banking operations as a whole only to the extent of centralizing the responsibility for the exercise of the powers which control the establishment of these trends. The individual operations—such as lending, investing, and so forth—of commercial banks are not contained in the subject matter of title II. However, the power to create or destroy the reserves of commercial banks, to raise or lower the rediscount rate, and other operations incidental to the effective regulation and control over the monetary policy of this Nation, constitute the sole subject matter of this portion of the bill.

The power to determine the trend is at the present time committed without definite responsibility to the Federal open market committee, the 12 Federal Reserve banks, and the Federal Reserve Board. They are unwilling, however, to assume the responsibilities for the disastrous results which have prostrated the Nation. Moreover, no adequate penalties can be ascribed. It is futile to attempt to continue under the present set-up. In conformity with that provision of the Constitution which declares the "Congress shall have the power to coin money, regulate the value thereof, and of foreign coin", we propose to perform our legislative duty through the enactment of this bill.

Mr. MITTELL. Well said, Senator. I am beginning to understand why you attach such vast importance to the bill.

Senator FLETCHER. The power to initiate open-market operations is now in the hands of the committee which consists of governors of the Federal Reserve banks. The Reserve banks individually, however, may or may not choose to cooperate. The choice depends upon the purely private interests and private profit motives of these banks. Public interest must not be compromised for private profits.

Mr. MITTELL. Well, what do you intend to do to protect the public's interest?

Senator FLETCHER. We propose to revert approximately to the original purpose of the Federal Reserve Act in which the executive head of the Reserve banks was designated as an agent of the Federal Reserve Board. Moreover, we shall both in spirit and in fact conform with the original provision of section 11 of that act, which states "The Federal Reserve Board shall be authorized and empowered * * * (subsection j) to exercise general supervision over said Federal Reserve banks."

Mr. MITTELL. What effect will that have upon the regional operations of a Federal Reserve bank?

Senator FLETCHER. We are not destroying the purely regional banking operations of the 12 Federal Reserve banks. We are only restoring to the Federal Reserve Board powers which have been wrested from the Board by the governors of the Federal Reserve banks. Bankers, per se, will not be deprived of a single purely banking function. At the same time we expect to give to them that security which is absolutely essential to the protection of the economic and social life of this Nation.

Political control over the system is not our object, nor is it the issue. Again I say, "Do not be misled." The people of this Nation, through the Congress, are determined to "nail down" and fix the responsibility for the expansion and contraction of our credit and currency and concentrate those powers in the hands of men who must "do the job."

Mr. MITTELL. Thank you, Senator Fletcher. I think your remarks tonight were of great educational importance to our people. It is my feeling that the public will support your efforts at banking reform if they receive adequate information.

Our problem today is to bring enlightenment on those social and economic questions that press for a solution and about which there are no adequate texts accessible to the millions. To meet this need we recently brought out inexpensive reprints of that great classic in democracy, Other People's Money, by Justice Brandeis, and have recently issued a new book, Money and Its Power, by Winslow and Brougham, which explains simply and comprehensively the questions and problems related to money, its uses, and power.

Senator FLETCHER. I have read both books. The first, of course, is a classic, and should be in every home. But Money and Its Power I found particularly appropriate at this time. It is an excellent condensed discussion of the uses, characteristics, standards, inflation, foreign exchange, and related subjects. It contains much valuable information, well arranged, and expressed. I have recommended it to friends who are studying banking, currency, and monetary policy. It is a very helpful and useful book.

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