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Senate Committee on Banking and
Currency Scheduled for 10:30 A.M.,
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Wednesday,

STATEMENT OF W. RANDOLPH BURGESS

President of the American Bankers Association before the Senate Committee on Banking and Currency at Washington February 28, 1945, on Senate Bill 510 to lower the ratio of required reserves against Federal Reserve notes in circulation and deposits in Federal Reserve banks and to make permanent the use of U. S. Government obligations as collateral for Federal Reserve notes. Mr. Burgess is vice chairman of the board of the National City Bank of New York.

There are two reasons for the restraints on Federal Reserve action which are contained in the legislation you are discussing.

First, to place some limitations on the very great power which the Federal Reserve Act puts in the hands of a few people.

Second, to serve as red lights when a huge expansion or credit takes place, for such credit expansion is dangerous.

We are in the process of going through red lights. In addition to the bill before this committee a bill raising the debt limit is before Congress and that also means passing a red light. Inflation usually shows itself in rising interest rates, and we have suppressed by government control, not the inflationary forces themselves, but their danger signals.

The danger signals are being passed but the inflation is going forward. The money held by the people, both in currency and bank deposits, is piling up in unprecedented amounts. We now have the same forces at work but in exaggerated degree that gave us the inflation of 1919 and 1920 and the crash of 1921. It took years for the farmer to recover from that boom and crash that carried wheat prices up to $3.50 and down to $1.00; that doubled the price of farm land and then dropped it back again.

The same forces later caused the real estate and security inflation of 1927-29 and the later depression of the thirties. It took the war to pull business and labor out of that slump.

There are many signs that these inflationary forces are vigorously at work today. We see them in city and farm real estate and in all uncontrolled prices, in black markets and lower quality of goods. The amount and quality of food, clothing, shelter, and service that the citizen can buy for his dollar is steadily declining.

We bankers are working with the Treasury in selling government bonds to the people. We have put on a lot of pressure and incurred, I believe, a moral obligation to those people to keep their dollars sound. After World War I the prices of Liberty Bonds dropped 15 per cent, but their buying power in goods dropped more than that. Today the savings bond fortunately can't drop in price, but its buying power can fall, and in fact is now falling.

This bill before the Senate removes certain automatic checks on credit expansion. To do so is a wartime necessity, but it means we must be increasingly alert. We ought to review where we stand on the inflation problem and take what steps we can to put the brakes in working order.

We, therefore, make the following definite suggestions:

1. That the bill be amended so that at the same time that the use of government securities for Federal Reserve notes is made permanent, the 1933 emergency power to issue Federal Reserve Bank notes and the power to issue greenbacks under the Thomas amendment of 1933 shall be repealed.

2. That the committee consider whether it may not be better at this time to lower reserve requirements to 30 rather than to 25 per cent. Thirty per cent is likely to take care of the needs for many months, and if it then proves inadequate it will be because credit expansion has gone to a point where Congressional review may be desirable.

3. That every proposal for government post-war spending be scrutinized with great care. Government spending is the chief cause of inflation. We agree wholly with Chairman Eccles' statement that, "nothing would be more helpful to prevent inflation developing than to have a balanced budget shortly after the war." No campaign among the people and no price controls will be adequate to curb inflation unless the government itself sets an example and puts its own house in order.

4. That the committee request the Federal Reserve Board to make a comprehensive report to Congress on the dangers of inflation and proposed methods for its avoidance.

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Testimony of W. Rangolph Burgess, President, American Bankers Association, before the Senate Committee on Banking and Currency, February 28, 1945.

Mr. Burgess supported the Federal Reserve System's request for permanent extension of the collateral provisions and reduction of the reserve ratio subject to the qualifications which appear in his prepared statement which is attached. In general, Mr. Burgess was friendly to the System, defended its operations, and on the whole seemed to persuade the Committee that the legislation sought by the System was necessary.

Most of the questioning which followed the brief statement had to do with the proposal to raise the buying price of gold. The questioning was pressed mainly by Senator Abe Murdock of Utah. Representatives of the American Mining and Smelting Congress occupied conspicuous seats in the Committee Room and Murdock conferred with this group at least once. While Burgess opposed raising the price of gold, he did so rather mildly and at no time based his opposition on international considerations. Rather, he leaned on such generalities as "preserving public confidence in the soundness of the dollar" or "promoting social security which arises from a firm price of gold." Mr. Burgess quite evidently didn't wish to have himself too far committed if he should be up for questioning later on the Bretton Woods proposal.

The prepared statement supported the removal of a time limit on the use of U. S. Government securities as collateral for Federal Reserve notes and verbally Mr. Burgess made some effective arguments for this step. He pointed out that there was no prospect of Federal Reserve assets coming to include enough eligible paper and he saw no reason for requiring the System to seek renewal of the power every two years. He added parenthetically that he had helped to draft the original provisions in 1932.

The verbal replies of Mr. Burgess on the recommendation of a 30, rather than a 25 per cent, ratio were as tentative as the language in the prepared statement, and he was at pains to emphasize that this was not a firm recommendation, but a suggestion. Beyond mention in the prepared statement, nothing of consequence was said about the recommendation for repealing the Federal Reserve Bank Note and Thomas greenback authorities.

Near the end of his testimony, Mr. Burgess repeated the fourth point of his prepared statement, i.e., "that the committee request the Federal Reserve Board to make a comprehensive report to Congress on the dangers of inflation and propose methods for its avoidance" and said that he considered it the most important part of the recommendations. He made some flattering remarks about the System's qualifications for such a job.

Attachment.