W. RANDOLPH BURGESS
55 Wall Street
New York 15, N. Y.

March 27, 1947.

Dear Marriner:

I enclose a copy of a letter I have just written to Congressman Wolcott about his Committee report on the bill to extend the authority of the Treasury to sell directly to the Reserve Banks. I think somehow this record ought to be straightened out, and perhaps you could get it done in the Senate report or somewhere else.

Sincerely yours,

(Signed) Randolph

Honorable Marriner S. Eccles
Chairman, Board of Governors
of the Federal Reserve System
Washington, D. C.

March 27, 1947.

Dear Jess:

This may be locking the door after the horse is stolen, but I have just had an opportunity to read the Committee report dated March 10 accompanying H.R. 2413. In general it tells the story in satisfactory shape, but there are two statements in the report, which I assume was prepared on the basis of data submitted by the Federal Reserve people, which are not accurate.

The first statement is on the first page--"The Federal Reserve System had used this direct purchase authority without any limitation as to amount of holdings from the time of its creation in 1913 to 1935, etc." This statement is misleading. There was a limitation on any purchase of Government securities which lay in the fact that securities purchased could not be used as collateral for Federal Reserve notes. This provision of the law restricted the amount of securities that the Federal Reserve System could buy in World War I, and it was especially a limiting factor in the Autumn of 1931, when the System was losing gold. The Glass Bill early in 1932 corrected this situation and made possible the billion dollar open market operation of the Spring and Summer of 1932. You will remember that this bill was extended from time to time, and that I appeared before your Committee when the power to pledge Governments as collateral for notes was made permanent.

One reason for the prohibition of direct purchases in the Banking Act of 1935 was that the Glass Bill of 1932 had thrown the door wide open for the purchase of Government securities. The two things went together.

The other statement which is not wholly true is on the next page--"To obtain funds to meet such temporary requirements without direct purchase by the Federal Reserve Banks, the Treasury would be obliged to arrange for sale of securities to dealers in the market, with the assurance that the Federal Reserve Banks would repurchase the securities; and this not only would be inconvenient and troublesome but would increase the expenses without serving any useful purpose." While I was in the Federal Reserve System I had charge of the operations under the Banking Act of 1935, and they are not correctly described by the foregoing sentence. What we did was to sell special Treasury certificates to some of the larger member banks, which was always simple to do by telephone in a few minutes, for at times when the Treasury needed the overdraft the banks were by the nature of the circumstances in possession of extra funds. There was no expense involved.

I am not opposed to this legislation under the present circumstances, with the three year limit that your Committee has placed on it, but the record ought to be correct, as I know you want it to be.

Sincerely yours,

Honorable Jesse P. Wolcott
House of Representatives
Washington, D. C.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

April 3, 1947.

The Honorable Jesse P. Wolcott,
Chairman, Committee on Banking
and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Wolcott:

Randolph Burgess has sent me a copy of his letter of March 27 addressed to you with respect to two statements in the Banking and Currency Committee Report on H.R. 2413. Speaking on the basis of his years of experience with the Reserve System, he indicates some qualifications that might be made to the two statements mentioned. In my opinion, however, these are very minor qualifications which do not contradict the essential truth of the Committee's statements.

It is true, of course, that inability to pledge Government securities as collateral for Federal Reserve notes prior to 1932 served on some critical occasions as a limitation on the total amount of Government securities that the Reserve Banks could purchase. It might also be mentioned that the reserve ratio required to be maintained by the Federal Reserve Banks now serves as a limitation. Such limitations, however, apply to total holdings of the Reserve Banks, and not simply to amounts purchased directly from the Treasury. Accordingly, I think this point raised by Mr. Burgess is irrelevant to the issue presented by H.R. 2413, which deals solely with authorization for the Reserve System to purchase a limited amount of Government securities directly from the Treasury and has nothing to do with the question of the total amounts of securities which the System may purchase, whether in the open market or directly.

I was surprised by Mr. Burgess' statement that "one reason for the prohibition of direct purchases in the Banking Act of 1935 was that the Glass Bill of 1932 had thrown the door wide open for the purchase of Government securities." That is an explanation for the prohibition which I had not previously heard. It is a very poor reason, at best. I think the real reasons for writing the prohibition into the Act were far more practical and can be traced to certain Government bond dealers who quite naturally had their eyes on business that might be lost to them if direct purchasing were permitted.

Mr. Burgess' second point seems to me even more remote from the questions raised by H.R. 2413. What he is saying in effect is that instead of having the Federal Reserve Banks carry the Treasury over some of these tax periods, he would call up some of the big banks and get them to perform the service. I, personally, have an instinctive dislike of a procedure which requires the Government of the United States to go, so to speak with hat in hand, to private banks to ask for this kind of accommodation. At the time of which Mr. Burgess speaks, these banks had large amounts of excess reserves and hence were in a position to be accommodating. While New York City banks are likely to obtain additional reserve funds in a period when the Treasury would need a temporary advance, it is not at all certain that they would always have excess reserves and be in a position to help out the Government. In any case, this sort of a procedure was a means of getting around the prohibition. It serves to emphasize again the desirability of removing that prohibition.

While Mr. Burgess states that he is not opposed to this legislation under present circumstances, it is my understanding that he preferred not to have the authority extended but took the position that if it were extended, it should be limited to 2 billion dollars under a 3-year extension. It was certainly my personal impression in the meeting I attended when he was present that he was not favorable to the proposal.

Possibly this letter may be raking over dead coals, but I did not wish you to gain an impression, as you well might from Mr. Burgess' letter, that the record misrepresented the facts.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.