



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

ERNEST G. DRAPER  
MEMBER OF THE BOARD

May 25, 1944.

Honorable Marriner S. Eccles,  
Hotel Ben Lomond,  
Ogden, Utah.

Dear Marriner:

I am enclosing herewith a copy of a letter which was received last Monday from Allan Sproul with regard to the bills which were introduced in Congress to amend section 13b of the Federal Reserve Act and a copy of the reply which I sent to Allan Sproul today. When the letter was received a quorum of the Board members was not present and, in view of your absence, it seemed to me desirable that I should make reply, as promptly as possible, as the other member of the War Loans Committee to which section 13b matters had been assigned. The reply was not sent until today, however, after discussion at a meeting of the Board at which four members were present and no objection was offered.

With my kind regards, I am

Sincerely yours,

A handwritten signature in cursive script that reads "Ernest G. Draper".

Ernest G. Draper.

Enclosures

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

May 25, 1944.

Mr. Allan Sproul, President,  
Federal Reserve Bank of New York,  
New York 7, New York.

Dear Allan:

In the absence of Chairman Eccles, your letter of May 20, 1944, with reference to the bills introduced in Congress by Senator Wagner and Representative Spence to amend section 13b of the Federal Reserve Act, has been referred to me as the other member of the War Loans Committee to which have been assigned matters relating to industrial loans by Federal Reserve Banks.

Your letter has been carefully discussed with the other members of the Board who are in Washington at this time. We wish to assure you not only that we welcome your views in such matters but that far from discarding or putting them aside without discussion they always receive our most careful consideration. This was true in this particular instance and you may be sure that it will continue to be true.

Both Chairman Eccles and I reviewed the replies received from the Presidents to his letter of April 29. In general, the comments made by the Presidents related to phases of the matter which we had studied when the plan and bill were being drafted. Nevertheless, these points were again carefully reviewed in the light of the comments of the Presidents. Upon consideration, however, it did not appear to us to be desirable to incorporate the suggestions and, in view of conditions then existing, it was not practicable to delay the submission of this matter to the Chairmen of the Banking and Currency Committees of the Senate and the House until after we had had an opportunity of further discussing it with the Presidents.

One of the principal suggestions was that the fund of approximately \$139,000,000 might well be left with the Treasury Department or, in the alternative, paid over to the respective Federal Reserve Banks instead of being paid to and administered by the Board of Governors. If the fund were left in the Treasury certain administrative and other problems might arise in the future, as they have in the past, with respect to operations under the program. Moreover, it seems desirable that the fund should be augmented from time to time through earnings, as otherwise

there would be no means of replenishing the fund to any extent whatever as losses were incurred. This would not be practicable if the funds were left with the Treasury. If the \$139,000,000 were distributed among the Federal Reserve Banks its use to equalize losses throughout the System would be cumbersome at least. I can assure you that the suggestion that the funds be paid to the Board was not made in order to give the Board any greater control over the lending policies of the Federal Reserve Banks than would otherwise be the case.

Another suggestion was that in addition to the authority to guarantee loans given in the proposal, the Reserve Banks be authorized to make direct loans to business enterprises. It was our thought that one of the definite advantages which this proposal would have over other proposals is that it contemplates that all loans would be made by private banking institutions, thus avoiding any possible competition with such institutions. This, as you know, is a point that has been emphasized many times by commercial banks. Moreover, the absence of such authority would avoid pressure which might otherwise be brought upon the Reserve Banks to make such direct loans when they are not available at commercial institutions, in many cases when there is little justification for them.

I am sorry that it was not feasible to give the Presidents a longer time for consideration and comment regarding the detailed proposal. As you know, the bill extending and enlarging the powers of the Smaller War Plants Corporation was about to be introduced, and that, taken together with the Taft Bill and the proposed Mead Bill, led us to believe that if we wished any Federal Reserve legislation with respect to industrial loans to be considered it should be introduced without further delay.

We have no reason to expect that Congress will take favorable action on the proposed amendment to section 13b at an early date. There should, therefore, be ample time to consider proposals for changes in the bill. Perhaps a full discussion of the proposal under consideration between the Board and the Presidents the next time the Presidents are in Washington would be helpful.

With best wishes to you, I am

Sincerely yours,

(Signed) Ernest G. Draper

Ernest G. Draper.

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FEDERAL RESERVE BANK

of New York 7

May 20, 1944.

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Board of Governors of the  
Federal Reserve System,  
Washington 25, D. C.

S i r s :

Recently the presses carried reports of the introduction in the Senate and House of Representatives, by Senator Wagner and Congressman Spence, of a bill to amend Section 13(b) of the Federal Reserve Act. I have just received a copy of the amendment and I see that it is unchanged from the one which was sent to the Presidents of the Federal Reserve Banks with the Chairman's letter of April 29, 1944, requesting their comments, if any, by May 5.

I telegraphed my comments to reach the Board on that date, and I assume some of the other Presidents did likewise, although this probably was not possible for all of them since the Chairman's letter of April 29, 1944, came to them while they were attending a meeting of the Board of Trustees of the Retirement System in Chicago. I do not know what consideration the Board gave to the views of the Presidents prior to recommending this amendment, but I hope that views such as mine are not to be put aside without further consideration. The circumstances under which the Presidents were kept in ignorance of the actual legislation to be proposed until shortly before the Board decided to recommend it, despite our formal request for information, had already created an undesirable situation which would only be worsened if the views of the Presidents, when finally solicited and received, were to be discarded without discussion.

I understand that consideration of place on the legislative calendar may have hastened final decision on the introduction of the proposed amendment to Section 13(b) of the Act. I also understand that this does not preclude consideration and possible suggestion of changes in the amendment, by the Federal Reserve System, before the bill has gone further in the Congress. In my opinion, this is most desirable.

Yours sincerely,

(Signed) Allan Sproul

Allan Sproul,  
President.