

Mr. Eccles
February 10, 1949

Chairman McCabe

Mr. Vardaman

There is attached a memorandum containing my remarks and suggestions in connection with your proposed statement to be made before the Joint Committee on the Economic Report, which statement was sent to us by Mr. Thomas under date of February 9.

In view of your absence, I am asking that copies of this memorandum be supplied to each Board Member and to Mr. Merrill, Mr. Thomas, Mr. Thurston and Mr. Riefler.

Attachment.

February 10, 1949.

MEMORANDUM

Page 4. Paragraph 1

I think the term "central banker" should be eliminated and something like "supervisory authority" be substituted. This term "central banker", I find, irritates a lot of people almost as much as it does me. I don't think it has any place in our Federal Reserve System as presently constituted.

Page 6. Paragraph 2

There is no mention at this point in the statement, or any other point that I can see, of the Federal Advisory Council. I would think that they should be brought into it, especially since they are a statutory body created for the specific purpose of advising the Board and a creature of the Congress in some respects the same as the Board.

Page 7. Paragraph 3

The third sentence is not clear. If the word "either" should be "other", I think it would be better to give the number of branches visited provided such number is an appreciable percentage of the total.

Page 7. Paragraph 4

The third sentence refers to Federal Reserve purchase of securities. Should we not emphasize here the Federal Open Market Committee's operations so as to again bring before the Congress the entire vast picture of the Federal Reserve framework, which is the Board, the banks, the Federal Open Market Committee, the Federal Advisory Council, and the member banks.

Page 8. Paragraph 1

The last sentence of this paragraph is not as emphatic or clear as I think it should be, and a hasty reading might leave with the reader the impression that the President had recommended measures which would permit us to abandon the support and also to throw aside our responsibility for maintaining sound credit. A more positive wording of this sentence would add strength in my opinion.

Page 9. Paragraph 1

Beginning with line 3 the statement touches on the ticklish question of capital accounts and might well be interpreted to mean that we as a Board feel that the present capital account is satisfactory, when, as a matter of fact, none of us feel comfortable about the present situation. I think we should either come out with the bold statement that capital accounts should be increased even with the present volume of deposits and

loans, and must certainly be increased if there is a further expansion in the volume of bank loans and deposits. If we are not willing to make the statement this strong, then I suggest that reference to capital accounts be left out. (I think also that in fairness to the member banks we should, at least sometimes, compare their net profits percentage-wise, to the gross amount of business done during this post-war period and the gross amount of business done in the pre-war period. In other words, it takes quite a few dollars more of business today to produce the same net profit that was produced by a much lesser amount of business in the pre-war period. Of course, I am not suggesting that anything like this go into the Chairman's statement to the Congress.)

Page 10. Paragraph 3

Do you not think that we should refer to the insurance companies in this paragraph as being probably the largest sellers of Government bonds? Also in this paragraph we refer to the Federal Reserve making the purchases and make no reference to the Federal Open Market Committee.

Page 11. Paragraph 3

In line 2 we use the phrase "We do know that we are now far more poorly equipped.....". It occurs to me that the word "We" does not sufficiently emphasize that the Chairman is talking about the Federal Reserve Board, since "we" in other parts of the statement refers to the economy and the Government as a whole. I would think that a positive statement to the effect that the Federal Reserve Board is definitely not properly equipped, etc. would lend strength to the statement.

Page 12. Paragraph 3

The last statement is, to my mind, entirely too weak in view of the importance of the question covered by it. It occurs to me that the Chairman should emphasize that if the present supplemental authority is allowed to expire on June 30 that "X" dollars of reserves will be automatically released, thereby having an immediate and inflationary impact on the economy.

Page 13. Paragraph 3

In the 4th sentence the Chairman uses the phrase "since I have been associated with the Federal Reserve System.....". This is a minor point, but I think the Chairman's statement would be greatly strengthened if he stated here something to the effect "I have been associated with the Federal Reserve System for 12 years as a Member of the Board and Chairman of the Federal Reserve Bank of Philadelphia and later as Chairman of the Federal Reserve Board here, and for the first time in all of these years I have found member banks becoming restive, etc.".

Page 15. Paragraph 1

Beginning with the 5th sentence, "We make a real contribution.....", personally I would like to see this passage eliminated. I do not think it adds strength to the statement, but it does raise the question in the minds of some of us as to the wisdom of paternalistic legislation and regulation. The Chairman may recall that one of the severest attacks made on Regulation W has been on the basis of paternalism and an effort on the part of the New Deal to "wet nurse" and direct the thinking and activities of our individual citizens.

Page 15. Paragraph 2

I don't think this sentence is positive enough. The phrase "The frequent doubts I heard on my latest trip....." does not emphasize with sufficient positiveness as to just what these doubts are about. In the last line of this same paragraph I think another opportunity is lost to emphasize that the Federal Reserve Board does not have sufficient authority, rather than the weaker phrase "we are at present ill equipped.....".