

Chairman Eccles stated that he had just had a visit from Messrs. Webb and Jones, Director and Assistant Director, respectively, of the Bureau of the Budget, who had called to discuss the suggestion that there be included in the President's budget message to Congress a proposal for reenactment of the franchise tax upon the earnings of the Federal Reserve Banks, which they estimated would provide approximately \$75 million a year in additional revenue. Chairman Eccles stated that he explained to Messrs. Webb and Jones why the Board would not like to have the question of the franchise tax come up at this time, and why the Board would favor (1) the repeal of section 13(b) of the Federal Reserve Act and the release to the Treasury of the \$139 million of funds earmarked under that section, including the \$27 million already paid to the Federal Reserve Banks, and (2) the cancellation of the stock of the Federal Deposit Insurance Corporation held by the Federal Reserve Banks and the payment of the \$139 million for the stock by the Federal Deposit Insurance Corporation to the Treasury rather than to the Federal Reserve Banks, with the understanding that the budget message would include a statement that the Board would propose an amendment to section 13 of the Federal Reserve Act giving the Reserve Banks stand-by authority to guarantee loans made by financing institutions. He added that he also outlined the consideration that had been given by the Federal Open Market Committee to steps that might be taken to reduce the earnings on the securities held by the Federal Reserve Banks, and stated that he would dislike to have a

proposal for the renewal of the franchise tax included in the budget message without an opportunity to discuss the matter with the Presidents of the Federal Reserve Banks, and that if a satisfactory arrangement had not been worked out when the midyear revised budget estimates were submitted, he would have no objection to the President then proposing reenactment of the franchise tax. Chairman Eccles went on to say that Messrs. Webb and Jones indicated that they probably would accept these suggestions, and that it would be necessary for the System to reach an understanding whether it would sponsor reenactment of a franchise tax with the knowledge that this might open in Congress the question of placing the Federal Reserve System under the General Accounting Office, the Budget Bureau, and the Civil Service Commission, or whether the System should adopt a procedure for a reduction in the interest cost to the Treasury on public debt securities held by the Federal Reserve Banks.

Excerpt from Minutes of December 17, 1946.