

PERSONAL

June 5, 1946.

Dear Abe:

This is the material regarding changes in the banking, credit and financial structure that have been brought about since the Roosevelt Administration came into office. I hope it will serve your purpose.

If I can be of any further assistance to you, please do not hesitate to call upon me.

Sincerely yours,

The Honorable Abe Murdock,
United States Senate,
Washington, D. C.

Enclosure

MSE:b

Copy for Miss Benton

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 4, 1946

To Chairman Eccles

Subject: _____

From D. M. Kennedy

I have hurriedly gotten together material along
the lines you suggested and trust that this will prove useful to
Senator Murdock.

Many important and far-reaching changes have been made in the banking and credit structure of the country since the crisis of 1930-33 which culminated in the complete collapse of the banking system in March 1933. The changes that had been made provided basic reform, corrected abuses that had developed, and transferred to and fixed responsibilities in public bodies directly responsible to the Congress and the President for essential banking and credit functions that formerly were largely in private hands. The depression of the thirties demonstrated beyond doubt the important role of credit and finance in our national economy. The changes that have been made since that time by the Congress in providing machinery for control and regulation of banks and other financial institutions, when taken in connection with governmental action in other fields, will go a long way to prevent future serious deflationary and inflationary developments. The maintenance of a high level of employment and production in a stable, yet expanding, economy is possible only when the public interest is jealously guarded in banking, credit and other important segments of the economy.

To summarize some of the major changes that have been made in recent years in banking and credit fields:

The Federal Deposit Insurance Corporation was created by Act of Congress to provide insurance to holders of bank deposits. Through this Government Corporation, which began active business in 1934, insurance was provided up to \$5,000 on each deposit account of insured banks. All national banks and state bank members of the Federal Reserve System were required by law to become insured banks, and provision was made for banks that were not members of the Federal Reserve System to have their deposits insured by the Federal Deposit Insurance Corporation. At the present time 13,300 banks out of a total of 14,000 in operation are providing insurance to their depositors through this Corporation.

Assessments are made by the Corporation on the insured banks on the basis of the banks' total deposits. Since insurance coverage of each account is limited to \$5,000, part of the Corporation's expense of providing deposit insurance to smaller depositors and small banks is borne by the larger depositors and the large commercial banks in financial centers of the country.

The Home Owners' Loan Corporation was created in 1933 as part of the newly established Federal Home Loan Bank System to assist distressed home owners. This Corporation lent upwards of 3 billion dollars to over one million home owners who were being threatened with foreclosure. Other subsequent activities of the Government in the home mortgage and housing field include: authorization for Federal savings and loan associations; organization of the Federal Savings and Loan Insurance Corporation to insure share accounts in Federal savings and loan and other building and loan

associations; organization of the Federal Housing Administration to insure mortgage loans made by approved lending institutions; establishment of the RFC Mortgage Company to make mortgage loans on income producing properties and to buy insured mortgages; organization of the Federal National Mortgage Association to purchase and thereby assist in establishing a market for mortgages; and the creation of the U. S. Housing Authority to make loans and grants on slum clearance projects.

The powers and activities of the Reconstruction Finance Corporation have been considerably expanded to provide for purchase of preferred stock of banks, loans to railroads, financial institutions and commercial and industrial businesses.

The Securities Act of 1933 was adopted in order to overcome misrepresentation in the sale of securities. It requires new securities to be registered with the Securities and Exchange Commission and provides for the filing of statements giving comprehensive information on the issuing corporation so that the public may have access to the full facts. Penalties are prescribed for fraud and misrepresentation.

The Securities and Exchange Act of 1934 was designed to correct many abuses that had developed in the security market, which abuses in large part were responsible for the boom and collapse in 1929. This Act requires securities exchanges to be registered, to abide by the provisions of the law, and to give full information concerning organization and operations. The Act placed in the Federal Reserve Board the power to regulate margin requirements on security credit extended by brokers, banks, and other lenders. One of the factors in the 1929 stock market boom was the large volume of securities that were purchased on very small margins. The calling of loans during the stock market decline contributed to the collapse and caused serious financial difficulties. Under the authority of this Act the Federal Reserve authorities recently increased margin requirements to 100 per cent. This means that in the present advancing stock market all transactions must be on a cash basis.

The Securities Exchange Act also prohibited manipulation and pooling activities in the stock market. The Securities and Exchange Commission was given power to set up rules governing short selling, floor trading by members, and the operation of so-called "specialists". All securities listed on exchanges must be registered with the Commission. In order to register with the Commission a corporation must agree to furnish it with complete information, which includes facts as to the remuneration of all officers, directors and underwriters, information about the amount of bonus payments and other profit sharing agreements, periodic profit and loss statements, and balance sheet information.

Under the Public Utility Holding Company Act of 1935, also administered by the Securities and Exchange Commission, holding companies in the electric and gas field are regulated and complex holding company systems are required to be simplified. One of the important effects of this legislation was the transfer back to local control and ownership of such utilities as the Utah Power and Light Company. This Company serving the light and power needs of the intermountain area had previously been controlled by a large eastern holding company—the Electric Bond and Share Company.

Important changes have been made in the Federal Reserve Act, particularly through the Banking Act of 1935. The Board of Governors of the Federal Reserve System, a public body composed of men appointed by the President and confirmed by the Senate to hold office for a period of 14 years, were given additional powers and responsibilities in the nation's central banking agency. Prior to 1935, power to fix discount rates was in the hands of the individual Federal Reserve Banks. The Banking Act of 1935 transferred this power and responsibility to the Federal Reserve Board—a public body—where it belonged. Open market operations, which influence directly credit conditions of the country, were also performed by the individual Reserve Banks. These operations, which have proved to be vital in the financing of the war and transition to peace, were also centralized. The operations of the Federal Reserve Banks were more closely coordinated and brought more directly under control of the Federal Reserve Board through the power granted the Board to approve the appointment of the executive officers of the Reserve Banks. Although the stock of the Federal Reserve Banks is owned by member banks and six of the nine directors of the respective Federal Reserve Banks are elected by member banks, the Federal Reserve Board now has full power of supervision and regulation, and the Federal Reserve Banks are effective public institutions operated not for private profit but rather in accordance with the public interest. The results of these changes in the Federal Reserve Act are evident in the record of war financing. The most costly of all wars was financed at stable rates of interest ranging from $3/8$ per cent to $2\ 1/2$ per cent, despite the fact that the Government debt increased during the period of the war from 50 billion dollars to 275 billion. In contrast, the first World War was financed at increasing interest costs ranging up to $4\ 3/4$ per cent. Following the first World War, security prices declined substantially and many holders of Government bonds suffered serious losses. At the end of the second World War, holders of Government bonds can look forward to stable interest rates and an orderly market for Government securities as a result of coordinated activity by public bodies.

In the international credit field the United States Government is taking a leading part. The establishment of the International Monetary Fund and the World Bank will do much to facilitate world trade and reconstruction of wartorn countries. These objectives are vital in insuring continuation of the peace that has been so recently and dearly won. As part of the Government's program to assure that international transactions will be handled in the public interest, rather than for the sole objective of private gain as has been the case in the past, a National Advisory Council has been established, which has broad and important powers in this field and is directly responsible to the Congress. This Council consists of the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Secretary of Commerce, the Assistant Secretary of State, and the President of the Export-Import Bank.