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United States Senate

COMMITTEE ON BANKING AND CURRENCY

January 11, 1937

Mr. Diebelbis
REC'D IN GENERAL FILES
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BY MESSENGER

Hon. Marriner S. Eccles, Governor
Federal Reserve Board
Washington, D. C.

My dear Governor Eccles:

At the direction of Chairman Wagner of the Senate Committee on Banking and Currency, I am enclosing copy of bills now pending before the Committee which are referred to you for consideration. He will appreciate your submitting a report thereon, in triplicate, at the earliest date possible.

Kindly address all communications to Honorable Robert F. Wagner, Chairman, Senate Committee on Banking and Currency, 303 Senate Office Building,

Very sincerely yours,

Leon H. Keyserling

Leon H. Keyserling
Clerk

Encl.

S. 417
S. 94 see 111-1-51

copy filed 111-1-51

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OFFICE OF GENERAL COUNSEL
JAN 13 1937
A.M. 3 P.M.
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JAN 21 1937

Honorable Robert F. Wagner, Chairman,
Senate Committee on Banking and Currency,
303 Senate Office Building,
Washington, D. C.

My dear Senator:

This refers to the letter dated January 11, 1937, from Mr. Leon H. Keyserling, Clerk of the Senate Committee on Banking and Currency, requesting that the Board of Governors of the Federal Reserve System submit a report on S. 417, a bill to extend the period during which direct obligations of the United States may be used as collateral security for Federal Reserve notes.

The Board of Governors favors the enactment of this bill, and there is inclosed herewith a statement which expresses the views of the Board with reference to the desirability of its enactment.

Very truly yours,

(Signed) Marriner S. Eccles

Marriner S. Eccles,
Chairman.

General Counsel's Office
Dictated by *MS*
Approved by *MS*
Revised by

Inclosure
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EXCERPT FROM THE MINUTES OF A MEETING OF THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
HELD ON JANUARY 6, 1937.

Further reference was made to the question what action should be taken by the Board looking toward an amendment of the second paragraph of Section 16 of the Federal Reserve Act to extend the authority of the Federal reserve banks, with the approval of the Board, to pledge direct obligations of the United States as collateral for Federal reserve notes. In connection with the consideration of this matter, it was stated that, while, as a consequence of the large gold imports in recent years, there are now enough gold certificates held by the twelve Federal reserve banks combined to enable them to provide a 100 per cent cover for all outstanding Federal reserve notes, this is not true as regards all of the banks individually, particularly in view of the small amount of eligible paper available for use as collateral for Federal reserve notes. Furthermore, should gold leave the country in large amounts, as it has done on previous occasions, notably in 1931 and 1932, the Federal Reserve System, in the absence of authority to pledge United States Government obligations to secure Federal reserve notes, might find itself compelled to adopt a restrictive credit policy at a time when an easy credit policy might be the desirable one, resulting in less liberal lending policies on the part of member banks and increasing interest rates and consequent serious restraint on business activity at a time when directly opposite results should be sought for.

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All of the members were of the opinion that it was clearly not in the public interest to run the risk of such a development by permitting the authority to pledge government securities against Federal reserve notes to lapse, and that the Board should take the position that such authority should be extended for a further period.

Accordingly, by unanimous vote, Chairman Eccles was authorized to take such steps as were necessary in the circumstances to place before the appropriate committees of Congress a draft of an amendment extending the authority for a further period, the draft to be accompanied by a statement of the desirability of enacting the amendment prior to the expiration on March 3, 1937 of the existing authority.

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