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UNITED STATES SENATE

Committee on Finance

May 20, 1941

Honorable Marriner S. Eccles,
Chairman, Board of Governors of
the Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

My dear Mr. Eccles:

I enclose herewith two bills which I introduced in the Senate to carry out the recommendations of the Board of Governors of the Federal Reserve System, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council, as outlined in their special report to Congress made on January first.

These bills were referred to the Committee on Banking and Currency, but Senator Wagner, Chairman of the Committee, has been absent during the entire winter. Senator Glass, however, is now the Acting Chairman, and he informs me that he has introduced a bill to extend the President's monetary powers. He tells me that this bill will be called up shortly.

I should be very much obliged if you would let me know whether the Federal Reserve Board still adheres to its position, and whether it will support my bills if I ask Senator Glass to conduct hearings thereon.

In case my bills are not satisfactory in every respect, I should be glad to discuss with you their modification to conform more closely to the desires of the Federal Reserve Board.

Sincerely yours,

ROBERT TAFT - (sgd)

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S E E
MINUTES ON
May 27, 1941.

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77th CONGRESS
1st Session

S. 25

IN THE SENATE OF THE UNITED STATES

Janury 6, 1941.

MR. TAFT introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

A BILL

To repeal certain powers of the President and the Secretary of the Treasury relating to the alteration of the weight of the dollar, the issuance of United States notes, the purchase of foreign silver, and the issue of silver certificates.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the emergency powers granted to the President by section 43 (b) (2), as amended, of the Act approved May 12, 1933 (48 Stat. 31, 52), with respect to the alteration of the weight of the dollar, are hereby repealed.

SEC. 2 All power and authority of the President and the Secretary of the Treasury under section 43 (b) (1) of the Act approved May 12, 1933 (48 Stat. 31, 52), with respect to the issuance of United States notes, shall cease and terminate on the date of enactment of this Act.

SEC. 3 All power and authority of the President and the Secretary of the Treasury under the Silver Purchase Act of 1934 with respect to the acquisition of foreign silver shall cease and terminate on the date of enactment of this Act; and all proclamations, orders, rules, regulations, and other action promulgated, made, issued, or taken by the President or the Secretary of the Treasury with respect to foreign silver pursuant to any power or authority so terminated shall cease to be effective on and after such date; PROVIDED, That nothing in this section shall be construed to limit the authority of the Secretary of the Treasury to acquire and make payment for foreign silver purchased or contracted for prior to the date of enactment of this Act.

Sec. 4. The fourth sentence added by section 12 of the Gold Reserve Act of 1934 to section 43 (b) (2) of the Act approved May 12, 1933 (48 Stat. 31, 52) (relating to the President's power to issue silver certificates under certain circumstances), is hereby repealed. Silver heretofore or hereafter deducted by the United States for seigniorage, brassage, coinage, or other mint charges shall not be coined or issued as money, and no silver certificates shall hereafter be issued against it. No silver certificates shall be issued under the authority of section 5 of the Silver Purchase Act of 1934 in excess of the cost of the silver purchased under the authority of section 3 of said Act.

SEC. 5. The seventh sentence added by section 12 of the Gold Reserve Act of 1934 to section 43 (b) (2) of the Act approved May 12, 1933 (48 Stat. 31, 53) (relating to the President's power to reduce the weight of the standard silver dollar), is hereby repealed.

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S. 952

IN THE SENATE OF THE UNITED STATES

February 25 (legislative day, February 13), 1941

MR. TAFT introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

A BILL

To increase the reserve requirements of member banks of the Federal Reserve System, and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That paragraphs (a), (b), and (c) of section 19 of the Federal Reserve Act, as amended (relating to reserve requirements of member banks of the Federal Reserve System), are hereby amended to read as follows:

"(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than 14 per centum of the aggregate amount of its demand deposits and 6 per centum of its time deposits.

"(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than 20 per centum of the aggregate amount of its demand deposits and 6 per centum of its time deposits: PROVIDED, HOWEVER, That if located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, hold and maintain the reserve balances specified in paragraph (a) hereof.

"(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than 26 per centum of the aggregate amount of its demand deposits and 6 per centum of is time deposits: PROVIDED, HOWEVER, That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, hold and maintain the reserve balances specified in paragraphs (a) or (b) thereof."

SEC. 2. The paragraph following paragraph (c) of section 19 of the Federal Reserve Act, as amended, is hereby amended to read as follows:

"Notwithstanding the other provisions of this section, the Federal Open Market Committee upon the affirmative vote of not less than seven of its members, in order to prevent injurious credit expansion or contraction and the abnormal growth of excess reserves, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both by member banks in central reserve cities, by member banks in reserve cities, by member banks not in reserve or central reserve cities, or by two or more of such classes of member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any such change shall not be less than the amount of the reserves required to be maintained by such bank under paragraph (a), (b), or (c) of this section, as the case may be, nor more than twice such amount."

SEC. 3. Section 12B (h) (1) of the Federal Reserve Act, as amended, is hereby amended by adding at the end thereof the following new sentence: "In determining the amount of the assessment base for any insured bank and the amount of its semiannual assessment due to the Corporation for the six months ending on June 30, 1941, and for each subsequent period of six months, such insured bank shall be entitled to deduct the amount of the reserves which it is required to maintain under subsection (v) of this section, or under section 19 of this Act, as amended.

SEC. 4. Section 12B (v) of the Federal Reserve Act, as amended, is hereby amended by adding at the end thereof the following new paragraph:

"(9) After January 1, 1942, every insured bank which receives demand deposits whether or not it is a member of the Federal Reserve System shall comply with the reserve requirements set out in section 19 of this Act, as amended. Any insured bank which fails to comply with the provisions of this paragraph shall be subject to the provisions of section 12B (i) (1) of this Act, as amended, in the same manner as a bank which has continued unsafe or unsound practices in conducting its business."

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BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

OFFICE CORRESPONDENCE

DATE May 28, 1941.

To Chairman Eccles

Subject:

From Mr. Carpenter

At the meeting of the Board yesterday, following a discussion of Senator Taft's letter of March 20, 1941 relating to two bills introduced by him, it was agreed unanimously that you should advise Senator Taft, either by telephone or letter whichever you think will be more satisfactory in the circumstances, that so far as you know there has been no change in the position taken in the report submitted at the end of the year by the Board, the Presidents, and the Federal Advisory Council, that it was your feeling that a comprehensive program as proposed in the year-end report would be a sound and proper approach to the problem of establishing monetary and credit controls, that while it was difficult to say at the present time how important these controls are, they are not as important at this time as direct controls through control of prices, priorities, and taxes, that the monetary and credit problem should not be dealt with as a piecemeal matter, that the question of renewal of the powers relating to the stabilization fund and the alteration of the weight of the dollar was largely an academic matter for the reason that these powers likely would not be used and, therefore, were the least important part of the credit and monetary picture, that the Administration had responsibility for economic, social, and monetary problems, and that if the Administration desired an extension of the powers referred to in the bill introduced by Senator Glass that was sufficient reason for the Board, under the circumstances, not to oppose the extension.

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JUNE 11, 1941.

My dear Senator:

But for the fact that I have been out of town for about ten days, I would have replied before now to your letter of May 20 enclosing copies of S. 952 and S. 25 which you introduced. You ask whether the Federal Reserve Board still adheres to its position as expressed in the Federal Reserve System's special report to Congress on December 31, 1940, and whether the Board will support your bills.

So far as I am aware, the Board as well as the Federal Advisory Council and the Presidents of the twelve Federal Reserve Banks continue to adhere to the position taken in the special report. My own position -- and I am not undertaking to speak for any of the others who joined in the report -- was set forth in an address I gave before the National Industrial Conference Board in New York on November 28, 1940.

The special report which the System subsequently sent to Congress was a much briefer statement of the situation. However, a careful reading of either or both statements should indicate that the repeal of or failure to renew certain so-called presidential monetary powers, as proposed by S. 25 which you introduced on January 6, is the least important aspect of the monetary and banking situation. Rather, the problem of excess reserves, to which these other matters are subordinate, is the primary question that needs to be considered by the Congress, but such consideration should be part of a broad and comprehensive program dealing with the entire monetary and banking picture and not merely with incidental factors such as the ones embraced in S. 25.

More than a month and a half later, on February 25, you introduced S. 952 relative to the reserve problem, but in the meantime your sponsorship of S. 25 appeared to be merely an anti-Administration move, since your bill was confined to stripping the Administration of various monetary powers and ignored entirely the major problems that ought to be dealt with first before determining what final disposition should be made with respect to these incidental powers. Consequently, your activity, however well intentioned it may have been, was not helpful in achieving the results which I, for one, desired. As you are aware, unless the support of the Administration and the majority leaders in Congress is enlisted on behalf of legislation, there is little or no likelihood of its being seriously considered or enacted.

I am aware of and appreciate your interest, but I am sure you will recognize that, approaching these complex and interrelated problems realistically and with a desire to find practical solutions, it would serve no useful purpose for me to attempt to analyze, with a view to supporting, piecemeal measures that deal only partially and not comprehensively with the subject. Moreover, now that the Administration, which bears the primary public responsibility for economic and monetary policy, has requested renewal of the authority to devalue the dollar in terms of gold, I recognize that it would be inappropriate and ineffectual to press further for a contrary decision.

Sincerely yours,

M. S. Eccles,
Chairman.

Honorable Robert A. Taft,
United States Senate,
Washington, D. C.

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UNITED STATES SENATE

Committee on Finance

June 17, 1941.

Honorable Marriner S. Eccles,
Chairman of the Board of Governors
of the Federal Reserve System,
Washington, D. C.

My dear Mr. Eccles:

I have your letter of June eleventh.

You refer to the fact that I introduced S. 25, repealing various emergency powers, on January sixth, and did not introduce S. 952, relating to the reserve problem, until a month and a half later. The only reason for this was that I had introduced a bill at the last session repealing the various emergency powers, and it was a very simple matter to make such slight changes as were necessary to conform to the Federal Reserve report. I knew much less about the subject of reserve requirements, and I was not certain that I fully agreed with the Reserve Board's report. In introducing the first bill, I said, " My bill does not cover the question of reserve requirements dealt with in the report of the Federal Reserve Board. There is no doubt that these requirements must be raised or other action taken to neutralize the effect of the tremendous importation of gold. This matter should also undoubtedly be dealt with by Congress." As soon thereafter as I could learn more about the reserve situation, and discuss it with others who knew more about it than I, I introduced the other bill.

As far as I can see, the two bills cover the entire recommendations of the Federal Reserve System, and I think it is therefore unfair to refer to them as "piecemeal measures that deal only partially and not comprehensively with the subject." Of course the general financial policy of the government with relation to spending, taxing and borrowing is of more importance at the present time than questions of credit control, but I see no way in which these policies could be determined by any single Congressional act.

I have placed the report of the Federal Reserve authorities in the record of the hearings, but I think it is unfortunate that they are unwilling to appear in support of their own recommendations made to Congress in such a solemn way, because I think it will deprive future recommendations of any particular attention from Congress.

I should be greatly obliged if you would send me a list of the names of all the Presidents of the Federal Reserve Banks at the time the report was approved by them, and the names and positions of all the members of the Federal Advisory Council at the time the report was approved by that Council.

Sincerely yours,

SGD - ROBERT A. TAFT

RT:Mc

July 7, 1941.

PERSONAL AND CONFIDENTIAL

My dear Senator:

This is to thank you for your letter of June 17 with further reference to the bills you introduced to carry out the recommendations contained in the Reserve System's special report to Congress. I appreciate the circumstances under which you introduced these measures and the reasons for the order in which you put them, but I know that you recognize the impossibility of hoping for favorable action unless the Administration itself and its leaders in Congress take the initiative. I recognize likewise your interest and desire to be helpful.

My own thought is that while your bills apparently cover all of the specific recommendations in the special report, the report itself has to be viewed against the larger background of a general banking and monetary program. I think it would be far preferable to have a much more comprehensive revision than contemplated in the report itself and it is questionable whether the enactment of these specific recommendations without going further would be at all adequate. I have in mind such broader legislation as suggested by the Board's Annual Report for 1938.

I frankly have some misgivings, as you do, about the wisdom of presenting such a report and then not appearing in advocacy of it. Considering all of the factors, however, at this time, such as the greater urgency of other measures occupying the attention of the Congress and of the public, and considering also the fact that the Administration, or at least the Treasury, has taken a contrary position, it seems to me that it would be ineffective to attempt to force the issue now. My personal inclination is usually to go to bat, and I do not mind saying to you that I am not as confident as I would like to be that it would not be the better course in this instance.

In accordance with your request, I am enclosing a list of the names of the presidents of the Federal Reserve Banks at the time that the report was approved by them, as well as the names and positions of the members of the Federal Advisory Council at the same time.

Sincerely yours,

(Signed) M. S. Eccles
M. S. Eccles,
Chairman.

Honorable Robert A. Taft,
United States Senate,
Washington, D. C.

enclosure

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PRESIDENTS OF THE FEDERAL RESERVE BANKS AS OF DECEMBER 31, 1940

Federal Reserve Bank of

Boston	Roy A. Young
New York	George L. Harrison
Philadelphia	John S. Sinclair
Cleveland	Matthew J. Fleming
Richmond	Hugh Leach
Atlanta	Robert S. Parker
Chicago	George J. Schaller
St. Louis	William McC. Martin
Minneapolis	John N. Peyton
Kansas City	George H. Hamilton
Dallas	Robert R. Gilbert
San Francisco	William A. Day

FEDERAL ADVISORY COUNCIL AS OF DECEMBER 31, 1940

District

No. 1 - Thomas M. Steele, President, The First National Bank and Trust Company of New Haven, Connecticut.

No. 2 - Leon Fraser, President, The First National Bank of the City of New York, New York.

No. 3 - Howard A. Loeb, Chairman, Tradesmens National Bank & Trust Company, Philadelphia, Pennsylvania.

No. 4 - B. G. Huntington, President, The Huntington National Bank, Columbus, Ohio.

No. 5 - Robert M. Hanes, President, Wachovia Bank and Trust Company, Winston-Salem, North Carolina.

No. 6 - Ryburn G. Clay, Director, Fulton National Bank, Atlanta, Georgia.

No. 7 - Edward E. Brown, President, The First National Bank of Chicago, Chicago, Illinois.

No. 8 - S. E. Ragland, President, The First National Bank of Memphis, Memphis, Tennessee.

No. 9 - John Crosby, Vice President, Farmers and Mechanics Savings Bank of Minneapolis, Minneapolis, Minnesota.

No. 10 - John Evans, President, First National Bank, Denver, Colorado.

No. 11 - R. E. Harding, President, The Fort Worth National Bank, Fort Worth, Texas.

No. 12 - Paul S. Dick, President, United States National Bank, Portland, Oregon.