

WRIGHT PATMAN
FIRST DISTRICT
STATE OF MISSOURI

WASHINGTON ADDRESS:
HOUSE OFFICE BUILDING

COMMITTEE ON
BANKING AND CURRENCY

SECRETARY:
MRS. LUCILLE SPAIN

Congress of the United States
House of Representatives
Washington, D. C.

March 24, 1941

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

Dear Mr. Eccles:

I have received your letter of March 21, 1941, and I expect to reply to it as soon as I have the time to do so. It is my belief that your views should be given to the public, and when I reply to your letter, I expect to insert it in the Congressional Record, along with my reply.

Before replying to it, and in order to get our definitions straight, I would like for you to answer the following questions:

1. Has the Federal Reserve Banking System refused to comply with certain laws, which affect Governmental institutions, including Civil Service, because the Board took the position that it is not a Governmental institution?
2. Is it not a fact that the Open Markets Committee has the greatest power and influence that can be exercised by any group in connection with the Federal Reserve Banking System? (If you disagree about this, please outline the tremendous powers that can be exercised by this Committee and state wherein these powers are not as great as the powers possessed by any other Committee or group in the System.)
3. Please give the names and addresses of the Open Markets Committee and the institutions in which the members of this Committee, who are not on the Board of Governors, are connected.

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4. Please give the names and addresses of the Advisory Committee and the names of the companies and institutions the members of this Committee are connected with.
5. I have asserted that the Federal Government can issue either interest-bearing bonds or money, or both bonds and money. Is this a correct statement or not?
6. I have also asserted that a Federal Reserve Bank obtains money from the Federal Reserve agent for the cost of printing, which is approximately 30¢ per one thousand dollars. If this statement is not true, please indicate wherein it is untrue.
7. I have also asserted that Federal Reserve notes that are paid into circulation by a Federal Reserve Bank are not obligations of the Federal Reserve Bank, but these notes state on their face: "United States Government promises to pay upon demand _____ dollars." Am I correct in the statement that the money issued by the Federal Reserve Banks is obligations of the Federal Government and not the Federal Reserve Banks and is the same as a Government non-interest-bearing obligation?
8. I have stated that under our present system, the Treasury can sell a thousand-dollar bond providing for an annual interest payment to a Texarkana, Texas, bank and that the Dallas Federal Reserve Bank could take the one thousand dollars' worth of Federal Reserve notes and buy these bonds from the Texarkana bank. That the Federal Reserve Bank at Dallas could continue to hold the Government bonds until due and collect interest each year when payable from the Government; that this was, in effect, permitting a privately owned insti-

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tution -- the Dallas Federal Reserve Bank -- to use the Government's credit free of charge to buy an interest-bearing obligation, which the Government must continue to pay interest on. Do you agree that this illustration is possible under our present system? If not, why not?

9. Do you agree with my statement that the private commercial banks have created by bookkeeping transactions almost twenty billion dollars the past few years for the purpose of acquiring United States Government interest-bearing obligations?

If you agree that the banks create this money, do you also agree that the Government could create it directly without having any more money in circulation than if the banks created it?

10. Do you also agree that the Federal Reserve Banking System creates money on the Government's credit without paying the Government anything therefor?
11. Do you agree further that the same security that is behind a United States Government bond is behind a Federal Reserve note, which is a Government non-interest-bearing obligation?
12. Do you believe that the Federal Reserve Banking System should be wholly owned and controlled by the United States Government through its duly appointed representatives?
13. Is it a fact that if a Board in charge of the Federal Reserve System is given the powers, which were recently requested in a special report, that dangerous inflation can be prevented, even though the Government uses its own credit by paying money into circulation instead of using the present system?

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14. If in answer to the preceding interrogatory, you state that the powers would be insufficient under the circumstances, what additional powers could be granted by Congress that would absolutely control and prevent dangerous inflation?
15. I have often asserted that by the time the Federal Government pays a long-term bond, it will pay as much in interest as on the principal. Do you agree that this statement is correct? If not, give me your opinion.
16. Do you consider the title to the gold in the United States Government or in the Federal Reserve Banks?
17. How much money could be created by the Federal Reserve Banking System under existing laws and regulations if used to the limit upon the gold certificates claimed by the Federal Reserve Banks and United States Government bonds held by both the Federal Reserve Banks and the member banks?
18. Is it true that the Board of Governors have agreed upon a policy to pursue that will cause an increase in interest rates generally?
19. Is it true or not true that you personally believe interest rates should be much higher?
20. Is it true or not true that you favor the Federal Government taxing the income of State and municipal securities for the purpose of causing an increase in interest rates generally?
21. Please state your answer to the following:
 - (a) All of the stock of the twelve Federal Reserve Banks is owned by private commercial banks

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and not one penny of it is owned by the Government or the people.

- (b) The Federal Reserve Banks pay no taxes whatsoever to the Federal Government and only pay taxes on real estate to the States and political sub-divisions in which they are located.
 - (c) Salaries are paid to individuals connected with the Federal Reserve Banking System up to \$50,000 a year.
 - (d) Practically all of the income of the Federal Reserve Banks is from Government bonds, which were purchased through the free use of the Government's credit.
 - (e) Although the original law required excess profits of the Federal Reserve Banks to go into the Federal Treasury, at this time under existing law, the Federal Reserve Banks do not pay anything into the Federal Treasury.
22. I would like to precede this question with an explanation. My proposal is for the Government to pay the private commercial banks the \$138,000,000 that they have invested in stock in the Federal Reserve Banking System and for the Government to take over the System and operate it in the public interest. If Congress should enact such a law, do you agree that the Federal Reserve Banks could accept from the Treasury non-interest-bearing obligations and give the Government credit upon the books of the Federal Reserve Banks therefor, permit checks to be drawn upon the account by the Treasury and no more credit or money would be placed in circulation than if Government interest-bearing bonds had been issued and sold to the commercial banks?

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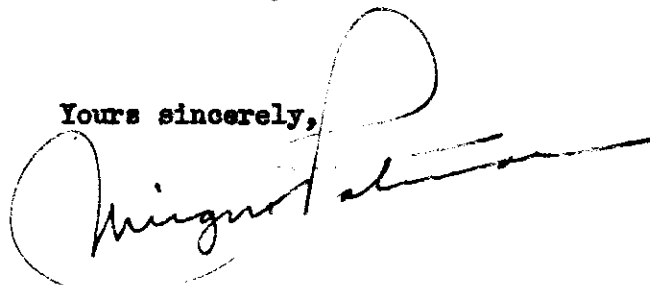
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23. Do you agree that if the Federal Reserve Banking System is owned by the Government and Government expenditures are financed as proposed by me that there will be no more actual money printed than is printed under the present system?
24. Although the Members of the Board of Governors are appointed by the President, is it a fact that their salaries are paid by the privately-owned banks?

For your information, I am not advocating the issuance of any kind of new money and am not advocating abolishing the charging of private interest, except on United States Government obligations. Further, I am not proposing for the Government to issue money or credit with no expectation of it being paid. I agree that some one must pay for everything, and if the Government issues non-interest-bearing bonds under my proposal, they could be paid back 4% a year and the debt entirely liquidated in twenty-five years, whereas under your system, if 4% interest is paid each year for twenty-five years, the Government will still owe the principal of the debt.

When you have replied to these questions, and I hope you will see your way clear to do so at an early date, I shall be very glad to answer every question raised in your letter of March 21, 1941.

Yours sincerely,



Wright Patman.

WP:s