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COLLATERAL SECURITY FOR FEDERAL RESERVE NOTES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-EIGHTH CONGRESS

FIRST SESSION

ON

H. R. 2634

A BILL TO EXTEND THE PERIOD DURING WHICH DIRECT OBLIGATIONS OF THE UNITED STATES MAY BE USED AS COLLATERAL SECURITY FOR FEDERAL RESERVE NOTES

MAY 10 AND 11, 1943

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COLLATERAL SECURITY FOR FEDERAL RESERVE NOTES

MONDAY, MAY 10, 1943

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

[H. R. 2634, 78th Cong., 1st sess.]

A BILL To extend the period during which direct obligations of the United States may be used as collateral security for Federal Reserve notes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the second paragraph of section 16 of the Federal Reserve Act, as amended, is hereby amended by striking therefrom the words "until June 30, 1943" and inserting in lieu thereof the words "until June 30, 1945."

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

The Chairman. The committee will come to order.

Gentlemen, we have before us for consideration this morning H. R. 2634. Mr. Eccles is with us. We will be glad to hear you, Mr. Eccles. Some of the members desire to interrogate you with respect to this legislation. I suggest that you discuss it in your own way, and then we may ask you some questions.

STATEMENT OF MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Eccles. Mr. Chairman, it might facilitate the consideration of this bill if I read a short letter that I addressed to you at the time the request for the extension was made. It will give a brief outline of the purposes or the reasons for the request for the extension:

The Board of Governors of the Federal Reserve System respectfully recommend that the temporary authority contained in the second paragraph of section 16 of the Federal Reserve Act to use direct obligations of the United States as collateral security for Federal Reserve notes be extended for an additional period of 2 years expiring on June 30, 1945.

Section 16 of the Federal Reserve Act was amended by the act of February 27, 1932, so as to provide that until March 3, 1933, the Board, if it deemed it in the public interest, should have authority, by the affirmative vote of not less than a majority of its members, to authorize the Federal Reserve banks to offer and the Federal Reserve agents to accept direct obligations of the United States as collateral security for Federal Reserve notes. This authority was extended for temporary periods by the acts of February 3, 1933; March 6, 1934; March 1, 1937; June 30, 1939; and June 30, 1941. Unless renewed this authority will expire on June 30, 1943.

During the early years covered by these amendments direct obligations of the United States were pledged as collateral for Federal Reserve notes until the amount of gold certificates held by the Federal Reserve banks and due from the United States Treasury increased to such an extent that it became unneces-

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sary to continue the use of direct obligations of the United States as collateral. From May 28, 1938, until recently the amount of such gold certificates was so greatly in excess of the amount of Federal Reserve notes in circulation that the Federal Reserve banks were able to pledge gold certificates with the Federal Reserve agents as collateral security for all Federal Reserve notes issued to them. without in any way impairing their reserves against deposits. However, as the result of a steady increase of money in circulation during the past 2 years, it has become necessary for the Federal Reserve banks to pledge Government securities with the Federal Reserve agents as collateral for Federal Reserve notes. Furthermore, the demand for currency has been increasing at the rate of $400,000,000 a month. As of April 14, 1943, six of the Federal Reserve banks had pledged Government securities as collateral for Federal Reserve notes in an amount totaling $505,000,000.

The Federal Reserve System has undertaken to see to it that member banks have reserves which will be adequate at all times to enable them to carry their share of private and governmental financing due to the war program. Purchases of United States Government securities by the Federal Reserve banks in the open market or otherwise in order to carry out this undertaking result in additions to member bank deposits, and to their reserve accounts at Federal Reserve banks against which the Federal Reserve banks are required to hold 35 percent reserves. For Federal Reserve notes issued, the Reserve banks are required to provide collateral, dollar for dollar, in the form of eligible paper of which the Federal Reserve banks hold very little, or of gold or of United States Government securities.

In these circumstances, if the authority to pledge Government securities as collateral for Federal Reserve notes should be allowed to expire, the Federal Reserve banks could not continue to meet the combined requirements of reserves against deposits and collateral for Federal Reserve notes due to the heavy credit requirements of war financing. Accordingly, it is urged that the authority to pledge Government securities against Federal Reserve notes be extended.

The CHAIRMAN. Let me suggest that you follow this statement with a brief history of the legislation as originally enacted and the reasons for it.

Mr. PATMAN. There is really a greater need for this legislation now than has existed at any time in the past except during the bottom of the depression?

Mr. ECCLES. That is right. At the time that the legislation was passed in 1932——

Mr. PATMAN. 1932, was it?

Mr. ECCLES. Yes; February 27, 1932, when it was first passed, and it was extended on March 3, 1933.

Mr. PATMAN. Was not that passed at about the same time as the R. F. C. was created?

Mr. ECCLES. That is right; just about that time.

Mr. PATMAN. I can see now a real need for this. Currency in circulation is still going up, is it not?

Mr. ECCLES. Yes.

Mr. PATMAN. All the way up to from $75,000,000 to $200,000,000 a week?

Mr. ECCLES. It has been averaging about $400,000,000 a month.

Mr. PATMAN. It has been averaging about $400,000,000 a month?

Mr. ECCLES. Yes.

Mr. PATMAN. It is rather astounding to me that there would be so much money in circulation. Of course, there are many reasons for it. You have about $16,000,000,000 in circulation now?

Mr. ECCLES. Yes; fully 16½ billion. We have Federal Reserve notes outstanding of nearly $14,000,000,000.

Mr. PATMAN. I want to ask you one more question. We have got to do something, I think, about holding companies——

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The CHAIRMAN. Before you get on to that, let me ask you one question in connection with this other point. How fast are bank deposits increasing?

Mr. ECCLES. Well, I can tell you how much they increased last year—that is, demand deposits and currency. I do not distinguish between them, because they are both used as our means of payment. The currency might go up and demand deposits go up, or demand deposits may go up, because currency expands more rapidly; but the total of what I term are means of payment increased approximately $20,000,000,000 during 1942 and reached a total amount of about $70,000,000,000.

Mr. PATMAN. How much, Governor?

Mr. ECCLES. About $70,000,000,000. During this year so far they are expanding at the rate of about $30,000,000,000 a year.

It looks as though there will be very close to $100,000,000,000 of demand deposits and currency by the end of the calendar year 1943.

That amount of money is about 3½ times greater than the amount in 1919 and 1920, the peak of inflation at the end of the last war. It is about the same amount as the peak of deposits and currency in 1929. I should not say it is about the same; it is about 3½ times as great as the peak in 1929 and about 3½ times as great as the peak in 1919, the highest point of inflation at the end of the last war.

It is a serious development, and the only way it can be arrested is that the deficit will have to be financed more out of taxes, which means far greater taxes, and more out of selling securities to the people and the corporations of the country who are getting the money which the Government is spending or are getting increased funds, which many of them are, as a result of the effect of the Government's expenditure.

The CHAIRMAN. Mr. Patman, let me ask one more question.

Mr. PATMAN. Surely.

The CHAIRMAN. What securities have the banks got now other than Government obligations of various kinds, in all?

Mr. ECCLES. They have practically nothing except the Government's. The amount they have is very, very limited. The amount of eligible paper as of April 30 as collateral against Federal Reserve notes was $9,988,000. There were $13,294,000,000 gold certificates deposited, and to this date there were $550,000,000 Government securities. The total, $13,853,000,000, was the collateral made up of the three categories that I have indicated.

The CHAIRMAN. How much gold paper have you available now as security for Federal Reserve notes?

Mr. ECCLES. We do not have any.

The CHAIRMAN. You have exhausted them?

Mr. ECCLES. That is why we are using the $550,000,000 of Government securities.

The CHAIRMAN. So the situation is that in the absence of the continuation of this authority you would find yourself without authority of law for the issuance of further Federal Reserve notes beyond the amount now in existence?

Mr. ECCLES. That is correct. Without an extension of this authority we could not expand the amount of currency that is out. The Federal Reserve, of course, are a passive agency when it comes to the

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issuance of currency. All they do is provide the currency to the member banks as they request it and as they have balances with the Reserve banks which are charged with the amount of currency sent to them.

They draw the currency out, of course, only to meet the demand of their depositors, so that it is the public that determines the amount of currency that is going to be in circulation at any given time and not either the private banks or the Reserve System. We have no determination whatever over that. It is the American public who have deposits.

The CHAIRMAN. You could, in the exercise of your open-market powers, go out and release currency without a specific demand from your member banks?

Mr. ECCLES. We would not release currency in an open-market operation. We would merely provide credit to the member banks.

The CHAIRMAN. That would be the same thing.

Mr. ECCLES. And they in turn would have balances, of course, that would enable them to convert them into currency, if there was a demand for currency.

The CHAIRMAN. Let me ask you this: Your gold position now is more perilous than it was at the time of the original act permitting the use of Government obligations as a cover for Federal Reserve notes was enacted; is that not true? The gold certificates were not entirely exhausted at that time?

Mr. ECCLES. Yes. You see, the gold certificates today are not exhausted. The law provides that Federal Reserve notes must be secured by not less than 40 percent gold certificates, and the member bank deposits carried with the Federal Reserve System must be secured by 35 percent in gold certificates.

In the case of Federal Reserve notes, 60 percent that is not required under the law to be secured by gold certificates must be secured by eligible paper, and in the absence of that, then gold certificates. There was not sufficient eligible paper and gold certificates to provide the other 60 percent collateral.

The CHAIRMAN. When the original act was passed?

Mr. ECCLES. That is right, and neither is there now.

The CHAIRMAN. If my recollection is right, I thought we were carrying about 80 percent in gold against our notes at the time this original act was passed.

Mr. ECCLES. Well, I do not recall what the percentage was at the time the act was passed.

The CHAIRMAN. And I did not understand that we had reached the end of the supply of gold that was available as a cover for Federal Reserve notes at that time, but that we were approaching that situation and in the meantime carrying twice the amount that the law contemplated against the notes.

Mr. ECCLES. Well, you are required to carry only 40 percent if you have eligible paper for the balance, but in the absence——

The CHAIRMAN. As a matter of fact, the eligible paper had declined to the point where they were carrying 80 percent against the notes at that time.

Mr. ECCLES. This is the amount. I do not know what percentage it is. At the time the Glass-Steagall provision was enacted, a terrible

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deflation was sweeping the country, with a devastating effect on our economic life. The banks were heavily in debt to the Federal Reserve banks and were losing gold to foreign countries and currency to the American public, which was withdrawing its deposits in currency from the banks.

Under those circumstances, the Federal Reserve banks, even though they had $1,400,000,000 of gold in excess of the legal reserve requirements—I do not know what percentage that was, because I do not have the figures to show whether the 40 percent legal reserve requirements were gold, but they had $1,400,000,000 in excess of the legal requirements——

The CHAIRMAN. And they had some in excess of the amount that they were actually carrying against Federal Reserve notes at that time, as I remember. In other words, they were not at the end of their rope when they passed that legislation.

Mr. ECCLES. No; they had $1,400,000,000 of gold, but they were unable to assist the member banks by open-market operations, because a large part of this gold had to be held as collateral for Federal Reserve bank notes. That was above the 40, because you did not have commercial paper and therefore you had to hold this gold for security of the Federal Reserve bank notes, and you were stopped from an open-market operation, because in carrying out an open-market operation you increased deposits, and as you increased deposits it increased the reserve requirements, which were 35 percent against deposits.

After Congress passed the Glass-Steagall Act in February 1937, the Federal Reserve banks were enabled to engage more freely in open-market operations. Their open-market purchases greatly relieved the situation, contributed to monetary ease, and were a factor in assisting the recovery movement.

The CHAIRMAN. And, as a matter of fact, this is true, is it not: that the importance of this legislation is now accentuated by the war program requirements?

Mr. ECCLES. Entirely.

The Federal Reserve notes outstanding on April 30, 1939, were $4,763,000,000; April 30, 1940, $5,250,000,000; April 30, 1941, $6,409,000,000; April 30, 1942, $9,339,000,000; April 30, 1943, $13,646,000,000.

Now, from April 30, 1939, to April 30, 1943, a period of 4 years, the amount of Federal Reserve notes in circulation has approximately tripled. Of course, as you know, there are silver certificates in circulation, and I do not recall the amount—less than three-quarters of a billion—between a half and three-quarters of a billion of Federal Reserve bank notes—and there is also a small amount of other Government currency out. Some of the old original national bank notes are still out, but the Federal Reserve notes make up approximately 80 percent of our currency, with the silver certificates, which are not increasing in amount.

The amount of silver purchased by the Government at one time provided all of the increase in the currency—in fact, it displaced the Federal Reserve notes. All of the dollar bills and all of the $5 bills are silver certificates.

Now, with the rapid growth in volume of currency in circulation, the Federal Reserve notes are the only elastic currency which we

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have to meet the situation. There is every prospect that there will be a continuation of the expansion of that currency, and hence with an increase in the amount of the Government's use for collaterial to secure currency, there will be an increase in deposits, and hence an increase in the reserve requirements of the member banks and an increase in the deposits of the member banks with the Federal Reserve banks, and those deposits in turn will require an increasing amount of gold to provide for the 35-percent reserve requirement.

From 1935 or 1936 up until last year there was no need for this legislation, because we did not have occasion to use Government securities for collateral back of Federal Reserve notes. The gold was ~~coming~~ into the country during that period of time and silver certificates ~~were~~ being issued, based upon silver purchases, to ~~such an~~ extent ~~that there was little expansion in Federal Reserve notes in circulation~~, and there was a large increase in the amount of gold certificates available for collateral security back of Federal Reserve notes and back of Federal Reserve bank deposits.

During the past year we have actually lost gold and there is little, if any, expansion in silver certificates; and there is, as I have indicated, a very large expansion in Federal Reserve notes outstanding.

This legislation is certainly as important, if not more important, than before, as it was when it was originally enacted in 1932.

Mr. FORD. Mr. Eccles, may I ask one question, please? To what extent can our currency be further expanded by the use of silver certificates?

Mr. ECCLES. I could not tell you. I do not know that there is any silver that is not being used. Of course, I think the law does provide that what is spoken of as silver seigniorage could be used. I do not remember what that runs up to recently. The last time I considered the question, a year or so ago, as I recall it, it figured at least a billion and a half dollars of silver seigniorage that could be used for the backing of further silver certificates.

Mr. FORD. That would be further coinage?

Mr. ECCLES. That is right.

Mr. FORD. And would not that relieve the situation somewhat?

Mr. ECCLES. That would be quite objectionable, I think, from the ground that you, of course, would increase deposits by the issuance of that currency. In turn you would increase bank reserves. There would be more of a howl, I think, if that were done, than there was at the time the Federal Reserve bank notes of $640,000,000 were issued.

Mr. FORD. Just why would they howl?

Mr. ECCLES. Well, why did they howl when the $640,000,000 of Federal Reserve bank notes were issued? There would be the same objection to it as there would be if you issued the $4,000,000,000 under the Thomas amendment. As a matter of fact, under the Thomas amendment there are $4,000,000,000 of currency that can be issued.

Mr. FORD. I thought it was three.

Mr. ECCLES. Well, maybe it is three. Whatever the amount is—I have forgotten.

The CHAIRMAN. What do you have back of your Federal Reserve bank notes?

Mr. ECCLES. Government securities.

Mr. PATMAN. There are not many of them outstanding, are there?

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Mr. ECCLES. I think there were $13,000,000 still outstanding of the original amount at the time the $640,000,000 were issued recently.

The CHAIRMAN. $660,000,000 was issued last.

Mr. ECCLES. $660,000,000 was issued, that is right. $13,000,000 of the original amount that was issued was still outstanding.

The CHAIRMAN. What is back of those bank notes?

Mr. ECCLES. Government securities.

The CHAIRMAN. Nothing else?

Mr. ECCLES. Nothing else.

The CHAIRMAN. What is your authority for issuing Federal Reserve bank notes? How far can you go on that? I would like to have that clear.

Mr. ECCLES. There is not any limit.

Mr. PATMAN. There is a tax on it, though.

Mr. ECCLES. No; I do not think so.

Mr. PATMAN. Do you not have to pay one-half of 1 percent?

Mr. ECCLES. That is right. You are right. There is a tax of one-half of 1 percent.

Mr. PATMAN. That is the reason they are objectionable from the bank's standpoint.

Mr. ECCLES. No; the reason that there was an objection, of course, to the issuance of them was the same reason that there would be an objection to financing the war by the issuance of currency—that they created deposits on the one side and created idle bank reserves on the other—and what you would have to do to avoid the huge excess reserves that would be created, of course, would be to do what Mr. Patman proposed, and that is require a 100 percent reserve against those reserves that were created as a result of the issuance of that kind of currency.

The CHAIRMAN. Let me ask you this question. The reserve requirements on deposits are just the same as they relate to increases brought about by the issuance of Federal Reserve bank notes, as they would be with respect to silver certificates?

Mr. ECCLES. That is right, just the same.

The CHAIRMAN. But in the case of silver certificates there would be an automatic control, depending upon the amount of silver?

Mr. ECCLES. The amount of silver would limit the amount of silver certificates that could be issued, that is correct.

The CHAIRMAN. Whereas with respect to Federal Reserve bank notes there would be no limit?

Mr. ECCLES. There is no limit as to the amount that could be used, but there would be a limit reached, because if you issued enough Federal Reserve bank notes you would create such a volume of deposits that there would not be a 35 percent gold reserve.

The CHAIRMAN. That would be the only control?

Mr. ECCLES. That is right. That would be the limiting factor.

The CHAIRMAN. What limit is there on the issuance of Federal Reserve notes? Clear that up while you are at it.

Mr. ECCLES. The limit on the issuance of Federal Reserve notes is the amount of gold certificates available.

The CHAIRMAN. And such other obligations——

Mr. ECCLES. That is assuming that Congress would continue the power to put Government securities up to supply the 60 percent.

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The statute provides 35-percent gold certificates as collateral security back of deposits of member banks and requires 40 percent collateral security back of Federal Reserve notes. The supply of gold is the only limiting factor so long as Congress would extend this legislation providing that the 60 percent back of Federal Reserve notes could be made up by the deposit of Government bonds.

Mr. WOLCOTT. Mr. Eccles, can you give us an approximate figure on the amount of Federal Reserve notes which could be issued by the banks according to the present amount of gold and the present amount of holdings of direct obligations?

Mr. ECCLES. I could not give you that at all. It is something that we would have to figure out. It would run up to the tens of billions.

Mr. WOLCOTT. There is practically no limitation on the amount of Federal Reserve notes you could issue, is there?

Mr. ECCLES. There is no limitation insofar as the restraint on inflation is concerned. If you issued all of the currency that could be used, with the gold backing that we now have, you would have such a fantastic amount of deposits and currency that it certainly would be an extreme condition of inflation.

Mr. WOLCOTT. Let me put it this way. Is it possible, with the present gold holdings and the expectancy of increases of holdings of direct obligations of the banks, to issue $500,000,000,000 of Federal Reserve notes?

Mr. ECCLES. I could not even guess at it. I would not know whether it was 100,000,000,000 or 500,000,000,000.

Mr. PATMAN. You testified to it one day.

Mr. ECCLES. You would have to sit down and figure it out.

The CHAIRMAN. You take the amount of gold certificates and see how much of the 40 percent it would take to exhaust that supply. That is the limit.

Mr. ECCLES. There is a limit. Of course, the 40 percent and 35 percent are your limits. That is what you have got. It depends on what part of it was in deposits and what part of it was in currency. It would depend on whether or not the stabilization fund gold was used or not. It would depend on how much gold we might lose or how much gold we might get.

The CHAIRMAN. Of course, these questions are predicated upon the amount of gold now available.

Mr. ECCLES. Well, you can figure it as well as I can. You have got approximately $20,000,000,000 of gold without using the stabilization fund gold.

Mr. PATMAN. Would you pardon an interruption there, Mr. Wolcott?

On the gold, you can create 2½ dollars to 1. That is $50,000,000,000. Then you can create 10 to 1 on that. That is $500,000,000,000.

Mr. ECCLES. Five to 1 is the present reserve requirement.

Mr. PATMAN. You could do that.

Mr. ECCLES. By dropping the reserve requirement.

Mr. PATMAN. You would have the power to do that.

Mr. ECCLES. Yes.

Mr. PATMAN. If you exercised that power you could easily put out $500,000,000,000.

Mr. WOLCOTT. Do you agree with that, Mr. Eccles?

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Mr. ECCLES. Well, you could not do it and maintain the 35-percent coverage and the 40-percent coverage, I do not think.

Mr. WOLCOTT. Under the law?

Mr. ECCLES. If you want me to figure it all out and file a statement, I will be glad to do it, but I do not want to sit here and make a statement and cover a thing as important as this is without figuring out all of the aspects to it, because it does relate to the power to reduce the reserve requirement, which is a very important factor in this picture, and it relates to the total deposits, of course, of the banks.

It depends on how many Government bonds the banks will buy, because if they buy Government bonds they create deposits, and as they create deposits they increase the reserve requirements of the Federal Reserve banks. It is not something that can be easily figured out accurately. I would like to figure it out and show you the various elements that enter into the picture.

Mr. WOLCOTT. If it is not too much trouble and if it is satisfactory to the committee, I think that would be desirable.

The CHAIRMAN. The committee will be glad to have you put that statement in the record.

Mr. WOLCOTT. If you recall, when you were here before and were asking for a continuation of this authority, we were entering an inflationary period, and we discussed the advisability of continuing this authority, because when it was originally granted it was for the purpose of inflating the currency. It seems to me, from your testimony here, that we would have a reasonable justification for an inference that the inflation in the country today may be predicated upon this power.

Mr. ECCLES. Oh, that is not true at all. This power has nothing to do with inflation in this country, not the remotest cause. The inflation today is due to the congressional appropriations and not providing the means for raising that money.

Mr. WOLCOTT. If we did not appropriate the money we could not finance the war.

Mr. ECCLES. That is right.

Mr. WOLCOTT. And the war financing is the thing that is causing the inflation.

Mr. ECCLES. That is right. When Congress appropriates money and does not provide the means for raising that money, then, of course, everything must be done to get that money from the public who are receiving it, and failing to get it all back, you have got to get it from the banks.

Mr. WOLCOTT. And you have got to create the money in the banks?

Mr. ECCLES. That is the last recourse.

Mr. WOLCOTT. I think we have put our finger on the inflation, but I do not know what we can do about it if we are going to finance the war.

Mr. ECCLES. Of course, the thing that can be done about it is a very much heavier tax program. If people were not receiving more money than there are goods available, you could not have the inflation. It is a fact that we are spending $100,000,000,000 a year and we are taxing about $30,000,000,000 a year, and we are leaving about $70,000,000,000 a year more money in the hands of the public than there are goods.

Mr. WOLCOTT. You mean taxes which will absorb the profit from war contracts primarily, do you not?

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Is this possible?

Mr. ECCLES. No; I do not, at all. I mean taxes that will get back the money that the Government pays out—an amount equal to it.

Mr. CRAWFORD. May I ask a question?

The CHAIRMAN. Mr. Patman has the floor, but I am sure he will yield to you.

Mr. CRAWFORD. Mr. Eccles, on this point just raised, let us assume that John Smith is drawing $3,000-a-year salary and that he has been drawing that right along for the past 10 years, and that Tom Jones is a neighbor across the fence. Tom Jones and his family are now working and they are drawing $600 a week in a war factory. The first fellow has deducted out of his income 10 percent of his $3,000 with which to buy bonds. That $300 goes into the Treasury. It is transferred by the Treasury to the war contractor.

The second family is working and it goes into their pay checks primarily and gives them a buying power three or four or five times greater than they ever had before.

The first fellow on the fixed income is being crucified by two things: by the deduction against his pay roll and by the increase in his cost of living, due to scarcity of goods being bid up by the family across the way which is drawing this $600 a week, as well as by increased taxes.

That is the thing that is rolling around in my mind as I consider more taxes. If Mr. Wolcott's proposition, to the effect that what we are here doing is the basis of inflation, in that this finances the war and war financing is the cause of inflation, is correct, I want to get this very clear. It is your position that Congress could do something about that and prevent inflation if we wanted to, is it not?

Mr. ECCLES. It is; yes, sir.

Mr. CRAWFORD. And that we should do it?

Mr. ECCLES. Yes, sir.

Mr. CRAWFORD. And that, if necessary, we should probably double the taxes, or jump from 30 to 35 billion up to 65 or 70 billion dollars, if it is necessary to prevent the inflation which comes out of this other operation? Is that your general approach?

Mr. ECCLES. My feeling is that a greater amount of taxes should be raised. I do not believe that it would be possible to get 60 percent of the cost in taxes. The greatest amount any country has been able to get has been that obtained by New Zealand. They did get two-thirds in taxes of their war cost. Great Britain is proposing to get 56 percent in taxes, but she gets some lease-lend from us, which would make it easier for her to get 56 percent than it would for us, because we are the givers and not the beneficiaries.

Canada has been collecting 50 percent, approximately, of all her Government expenditures, including war expenditures, in taxes.

We were averaging about 30 percent last year, and if there was no further tax legislation passed we would collect about 30 percent this year of our expenditures. Last year we spent, of course, in the calendar year 1942 very much less than we will spend in the calendar year 1943, so that these increased taxes that will be collected in 1943 as compared with 1942 will still only be about 30 percent, because expenditures have increased as fast as the taxes have. We have not caught up with them. In fact, we are just about maintaining the same ratio this year as we maintained last year between the Government expenditures and the taxes which are being collected.

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Mr. CRAWFORD. If I should say that, based on that explanation, I felt that we should certainly go to $50,000,000,000 a year on Federal taxes, would you go along with that?

Mr. ECCLES. I do. I think we should collect $50,000,000,000 a year.

Mr. CRAWFORD. That is exactly where I think we should go as a minimum. I think it should go up to $50,000,000,000 a year.

Mr. ECCLES. Yes.

Mr. CRAWFORD. That is the reason I voted against this cancelation scheme the other day.

May I ask you this? It is very interesting to me, in connection with your observation about lend-lease, that we have rough-machined through Congress here almost exactly the amount on lend-lease which the total Government debt of Great Britain amounts to to date, so that with that kind of cooperation on our part I can understand why Great Britain can pay up to 56 percent. In other words, you will find that as of March 20 it was around $67,000,000,000. We are moving right up to that figure. Almost the total debt of Great Britain we have already rough-machined under lend-lease.

Mr. PATMAN. We have not given it all to Great Britain.

Mr. CRAWFORD. No. We have obligated ourselves.

Mr. ECCLES. The total amount under lend-lease during the past year was around $10,000,000,000.

Mr. CRAWFORD. I was speaking of our authorizations, commitments, and transfers.

Mr. ECCLES. I think it is contemplated that about $2,000,000,000 a month is all that it is expected we will deliver under lend-lease and at the same time maintain our present military program, so that if we reach the $67,000,000,000 you talk about it will take quite a number of years at the present rate of expenditure for lease-lend.

Mr. CRAWFORD. And there you have given my exact reason for not further committing ourselves under lease-lend, so I voted against that the other day, because I think we have committed ourselves far enough for the time being, at least.

On that point, while we go ahead and rough-machine and make commitments in the form of appropriations and authorizations and commitments and authorize transfers under lease-lend, it certainly enables the British, in designing their budget as to outgo and income from taxes, to design along a 50- to 56-percent basis, which they probably could not do had we not made our commitments.

So my contention is that the commitments we make, as we move into the $60,000,000,000 zone under lend-lease, certainly put the British in a position very soundly to map and soundly proceed to finance their whole war budget, which I think they are doing an elegant job uot of, and I think we are making a dismal failure out of ours.

I want to ask you another question on a point that you brought up. Have you any figures so far to show how many of the recent sales of Government securities were purchased by commercial banks in the last drive?

Mr. ECCLES. Yes. I remember them.

Mr. CRAWFORD. What were those, roughly?

Mr. ECCLES. Do you want all the division of sales and just what happened in the last drive?

Mr. CRAWFORD. Surely.

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Mr. ECCLES. It will be a little over $18,000,000,000 as a total. Of that $18,000,000,000 there will be approximately $3,000,000,000 sold to individuals; that is, the aggregate amount sold to individuals. That will include all the War Savings bonds that were sold during the month, together with all other securities that are not on tap but were offered during the drive. The banks, approximately $5,000,000,000——

Mr. CRAWFORD. Commercial banks?

Mr. ECCLES. Commercial banks.

Mr. CRAWFORD. That is about the same as in December?

Mr. ECCLES. Yes, that is right. The mutual savings and insurance companies I think will run around $3,000,000,000 or over. I am giving you the rough figures here.

The corporations outside of the banks will run between 5½ and 6 billions. The balance will be the Government agencies and the brokers and dealers who buy to resell and redistribute.

The Government agencies combined, the Government dealers and the Government agencies together—that is what I would term "Government bond dealers"; "brokers and dealers," we term them—purchased better than $1,000,000,000.

Of the ones that the dealers purchased, a good part of those will end up in the banks. I would think that possibly a half billion dollars of the securities that the dealers and the brokers took will. I think that will run close to $18,000,000,000.

Mr. CRAWFORD. After Mr. Patman finishes, I have some more questions to ask you.

Mr. PATMAN. I want to ask you about the number of holding companies in the United States that have control over banks, approximately. I am talking about the major ones.

Mr. ECCLES. Well, I think it may be around 100.

Mr. PATMAN. Around 100. What is the largest one?

Mr. ECCLES. In speaking of 100, I would like to say that that would be based upon those that would come under the regulations of the Federal Reserve Board.

Mr. PATMAN. That is all right. Put any definition you want to put on it.

Mr. ECCLES. The largest, of course, is the Transamerica.

Mr. PATMAN. It is by much the largest, is it not?

Mr. ECCLES. Yes.

Mr. PATMAN. Several times as large as any other?

Mr. ECCLES. Yes.

Mr. PATMAN. How many States does the Transamerica operate in?

Mr. ECCLES. Washington, Oregon, California, Nevada, and Arizona.

Mr. PATMAN. It does not operate in Utah and Idaho?

Mr. ECCLES. No; or Montana.

Mr. PATMAN. Why were the banks exempted from the provisions of the Holding Company Act that related to power companies?

Mr. ECCLES. What was that question again?

Mr. PATMAN. Why were the banks exempted from the Holding Company Act passed by Congress, which, in other words, destroyed the holding companies?

Mr. ECCLES. You mean utility holding companies?

Mr. PATMAN. Yes.

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Mr. ECCLES. You might ask why were not all holding companies except utility companies——

Mr. PATMAN. The Utility Companies Act applied to more holding companies than just power companies, did it not?

Mr. ECCLES. I do not think so.

Mr. PATMAN. You do not think so?

Mr. ECCLES. No; not that I know of. The investment trusts are forms of holding companies, and, of course, the United States Steel Corporation is a holding company and General Motors is a holding company, so that when you ask why it did not apply——

Mr. PATMAN. You have answered, Mr. Eccles. You have answered satisfactorily.

The CHAIRMAN. Let me ask you, Mr. Patman, if you do not mind, Is there a provision in the Holding Company Act specifically exempting them?

Mr. PATMAN. No.

The CHAIRMAN. They simply are not embraced in that. That is my recollection.

Mr. PATMAN. That is right.

Mr. ECCLES. No holding companies except the utilities were included in it.

The CHAIRMAN. That bill was sent to me, and at that time there was no provision including bank holding companies.

Mr. PATMAN. Mr. Eccles, you look upon the holding companies owning banks as a good thing, a wholesome thing, or a bad thing?

Mr. ECCLES. I do not think there is anything bad about it. It depends, like any other business, on the way they are conducted and managed. If a holding company is operating strictly a banking business and is operating those banks on a sound basis and is maintaining a conservative dividend policy and is building up reserves and supervising them, it can really be a great improvement as against possibly independent unit banks. On the other hand, a holding company can be used as an instrument of great damage if its powers are abused.

Mr. PATMAN. Are you willing to recommend that Congress pass some kind of holding company legislation?

Mr. ECCLES. You mean dealing with the banks?

Mr. PATMAN. Yes.

Mr. ECCLES. Well, it would depend a good deal upon——

Mr. PATMAN. Well, you know, Mr. Eccles, whether or not you look upon the present situation, especially with reference to Transamerica, as a good thing, a wholesome thing, something you are willing to let go out, or whether you think legislation should control situations like that.

Mr. ECCLES. Outside the Transamerica, the Board and the other Federal agencies have encountered no difficulty whatever in dealing with other banking organizations.

Mr. PATMAN. That does not answer my question, though.

Mr. ECCLES. There has been on balance no expansion outside of Transamerica. There has been some little minor growth in one or two instances. In other cases there has been some liquidation. I would say that on balance, outside the Transamerica, there has been no growth whatever in the holding-company development, and the Board has looked with disfavor upon the acquisition by a bank holding

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company of stock in banks, and the holding companies, I think, have respected the views of the Board, with the exception of Transamerica, in that regard.

Mr. PATMAN. The Transamerica Corporation has disregarded your wishes?

Mr. ECCLES. Transamerica has gone out and has bought up stocks of other banks, particularly in the State of California.

Mr. PATMAN. You can answer this yes or no. At least, you can answer it in a few words. Are you willing to recommend legislation dealing with bank holding companies or not?

Mr. ECCLES. I would prefer not to answer that at this time.

Mr. PATMAN. Well, you have admitted that Transamerica has run over you, that they have paid no attention to you, and you do not look on it as a good thing. Are you willing to sit silently by and let it go, or do you think Congress should act on it?

Mr. ECCLES. I would think Congress should act unless we are able to get more cooperation than we have been able to get.

Mr. PATMAN. Well, you have failed for 10 years, have you not?

Mr. ECCLES. No. We have not been working on it for 10 years. There has been very little expansion the last few years. It has not been a great expansion.

Let me put it this way. This whole question, of course, is one in which the other Federal agencies are involved. As you know——

Mr. PATMAN. I know, but you are more involved than any of them.

Mr. ECCLES. No. We are less involved, possibly.

Mr. PATMAN. You are less involved than other agencies? Which agency is more involved than yours?

Mr. ECCLES. The F. D. I. C. have the question of the insurance of the deposits of the existing banks in the holding company and, of course, other banks that may be acquired which are already insured banks. There is nothing they can do about that.

The Comptroller's office has been, as I understand it, opposed to a further expansion of the Bank of America in California and has refused to grant additional branches to the Bank of America National Association, which is a national bank. They have refused to grant charters for additional branches, so the holding company has gone out and has purchased the stock of existing banks and has tried to get the Comptroller's office to permit those banks to become branches, and they have refused to do so.

Mr. PATMAN. Mr. Eccles, I do not want to take the time of the committee on this question, but I would like for you to say this one way or the other. I presume, however, that your answer is that unless you can get better cooperation out of Transamerica you would look with favor upon advocating legislation that would curb the bank holding companies?

Mr. ECCLES. That would give the Board the power to require what they would consider a policy in the public interest.

Mr. PATMAN. Now, you do not look with favor upon the activities of Transamerica Corporation, do you?

Mr. ECCLES. I do not. I would like to qualify that. I do not look with favor upon the acquisition by Transamerica of stock in concerns that have no relationship to banking, nor do I look with favor upon the acquisition by Transamerica of stock in independent unit

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banks as a means of evading the requirements of the Federal agencies who will not permit them to establish further branches.

Mr. PATMAN. You were asking us to approve a bill that you had here at one time that would permit you to destroy currency that was over here at the Bureau of Engraving and Printing. Is that the currency that has been used recently in the Federal Reserve bank note proposal?

Mr. ECCLES. We did not have a bill that we sent up here.

Mr. PATMAN. I think you testified about it.

Mr. ECCLES. I testified in the Senate, before the Banking and Currency Committee of the Senate.

Mr. PATMAN. Let me change that. I am afraid I am confusing you. A few years ago you had a bill introduced—at least, a bill was introduced—providing that we authorize destruction of several billion dollars of currency over at the Bureau of Engraving and Printing, on the ground that it did not represent the truth. It said it was redeemable in gold, when it was not redeemable in gold. You wanted to destroy it. I opposed the bill. You finally abandoned it, I think. Have you ever used that currency?

Mr. ECCLES. It has never been used.

Mr. PATMAN. It has never been used? It could be used, could it not?

Mr. ECCLES. It could be used if the Treasury would consent. The Treasury objected. It raised an objection to the Federal Reserve's putting that currency out, and the currency is still on hand. If the Treasury had had no objection we would have been very glad to use it, but we felt that, in view of a definite request made by the Treasury that we do not put it out, we possibly should not put it out unless we were specifically instructed by Congress or the Treasury to put it out.

Mr. PATMAN. One other question about this bond drive. We were told by Mr. Morgenthau, if not before this committee, before the Ways and Means Committee, that he expected to obtain about $13,000,000,000 in this second War Bond drive, and that, if necessary, he expected to get $5,000,000,000 of that from commercial banks. Of course, he looks with disfavor upon the commercial banks' creating the money to pay the cost of the war. You do and I do, and everyone else does, because it is highly inflationary.

Since this War loan drive was so successful and people who had money to buy bonds actually purchased $13,000,000,000 or more, why did they then permit the commercial banks to purchase $5,000,000,000 more when it was not necessary?

Mr. ECCLES. I was opposed to including in this financing the commercial banks.

Mr. PATMAN. Well, it looked to me like it was unnecessary.

Mr. ECCLES. Let me tell you the way the thing was handled. Before the drive was commenced we had to set up a quota for nonbanks, and it was felt that $8,000,000,000 was a conservative amount——

Mr. PATMAN. Was a maximum, Mr. Morgenthau said.

Mr. ECCLES. We felt it was the minimum that could be gotten. I certainly did not think it was the maximum. I felt it was the minimum, and I think that the Reserve people generally felt that $8,000,000,000 was the minimum that could be gotten outside the commercial

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banks at that time. I know some of us felt that even $10,000,000,000 would be a safe amount to put in a quota and to exclude commercial banks, but the Treasury said that they needed thirteen or fourteen billion or they would have to have another drive too soon.

I felt that they should get their money outside of the commercial banks and decide what they should get from the commercial banks after they found out what they could get from the public, and get from the commercial banks in the interim between the public drives by making available to the banks what was known as short-term bank paper largely. I would not have included the seven-eighths certificates in the public drive.

In setting up the quota of $13,000,000,000, that was arrived at by a digest of the various opinions. Some thought 12 and some thought 15——

Mr. PATMAN. That does not answer the question, Mr. Eccles. The fact is that the figure they set was reached and it was oversubscribed outside the commercial banks. Since it was oversubscribed outside the commercial banks, why should they create $5,000,000,000 more through the commercial banks?

Mr. ECCLES. They had already created $2,000,000,000 through the commercial banks the day the drive opened. They set up a quota of $13,000,000,000 to be raised during a period of 3 weeks. Eight billion of that was to be gotten outside of the commercial banks. Then $5,000,000,000 was to be gotten from the commercial banks during this 3 weeks' period. It was $200,000,000 a week in bills. We have been increasing the bill offering periodically. In other words, the 90-day bills have a roll-over every 13 weeks, and we have been stepping them up so that each week there has been $200,000,000 of new money that we got every week besides refunding or rolling over the amount that was maturing, so that in this the Treasury included, for the purpose of the drive, all of the bills that were sold during the month of April, just as they included all of the War Savings bonds for the entire month.

Mr. PATMAN. Yes, I understand that.

Mr. ECCLES. Now, $200,000,000 for the 4 weeks was $800,000,000 that it was contemplated the banks would take the big bulk of, because that is the market for bills. Then they figured $2,000,000,000 of seven-eighths certificates would be offered to the banks on the opening day of the drive, and the books would be left open for 2 or 3 days—2 days, I think it was.

The banks subscribed for over $9,000,000,000. They were allotted in full up to $100,000. The balance was prorated, and it figured an 18 percent allotment on their subscriptions. The Treasury allotted $2,100,000,000, approximately.

Mr. PATMAN. At 2 percent?

Mr. ECCLES. No, at seven-eighths. They announced before the drive opened that they would get from the banks approximately $5,000,000,000; that they would get $2,000,000,000 in certificates the first 3 days of the drive; that they would get $2,000,000,000 in 2 percent bonds the last 3 days of the drive; and that the banks would not be permitted to subscribe for any other securities and in any greater amount.

That was all part of the program. That was agreed to several weeks before the drive started, because there was a lot of educational work to be done.

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Mr. PATMAN. It is 12 o'clock now, and I have taken too much time, but I would like to ask you just one more question. Since you say it is highly inflationary to have the commercial banks create this money, and since you have pointed out several things that Congress has done that have caused inflation, what do you think of the passage of a bill as proposed in the Ruml plan? What effect will that have on inflation or our power properly to control inflation?

Mr. ECCLES. The proposed tax bill, you mean?

Mr. PATMAN. Yes.

Mr. ECCLES. The tax bill that was passed?

Mr. PATMAN. Yes. Suppose we forgive 40 percent or 50 percent. What effect will that have on our power to control inflation?

Mr. ECCLES. I do not get your point. I do not see that the Ruml plan or the Robertson plan or any other plan has any effect on inflation any more than any other tax bill except that it raises more or less money.

Mr. PATMAN. This is a forgiveness bill. What I mean is this: Suppose you release $10,000,000,000 of purchasing power. In other words, $10,000,000,000 is tied up because it is expected to be paid in taxes. If you release it you release $10,000,000,000 worth of purchasing power. Will that have any effect on our power to control inflation or not?

Mr. ECCLES. To the extent that the people who owe that $10,000,000,000 have actually got it in the form of cash reserves or the equivalent, naturally it would increase the inflationary pressure to the extent that they undertook to spend it. Now, I do not believe that even a very small fraction of the people who are subject to taxes have the cash on hand to meet the taxes. I do think that the larger taxpayers do have cash on hand to meet their taxes, or the equivalent in the form of Governments or some other means of paying the taxes. There may be some increase in the expenditures of people with surplus funds of that sort, but the well-to-do people I do not believe would possibly spend a great deal more on consumers' goods, whether this bill was passed or it was not passed.

Mr. PATMAN. That is all I wanted to ask.

Mr. MONRONEY. Getting back to the bill, is this unlimited as to the amount of Federal securities that can be used for this 60 percent?

Mr. ECCLES. It is unlimited; that is right.

Mr. MONRONEY. I thought there was a ceiling someplace on this as to the amount of Federal paper that could be eligible for placing with the Federal Reserve.

Mr. ECCLES. It is 60 percent of the amount of Federal Reserve notes that are issued. Now, that is what it would amount to.

Mr. MONRONEY. It is limited, then, only to the amount of gold certificates, and they have to put up 40 percent?

Mr. ECCLES. We do not know how many Federal Reserve notes are going to have to be issued at all, and certainly no more Governments will be put up than would be required, because of the deficiency in gold certificates and eligible paper to meet the requirements.

If there were ample gold certificates and eligible paper, there would be no Governments put up, and the Governments will be put up merely to meet the legal requirements from time to time; and, as I indicated a while ago, there was a period when no Governments were put up.

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Mr. MONRONEY. Yes; but you also said that you put up, as of April 30, $13,000,000,000 in gold certificates. Most of that would represent 100 percent of your Federal Reserve notes, would it not? In other words, you are not putting those up as 40 percent collateral, but you are putting them up as 100-percent collateral?

Mr. ECCLES. That is right.

Mr. MONRONEY. With this act and with the future need of currency, you will draw down 100 percent that you got that $13,000,000,000 up for, to the point where the $13,000,000,000 will eventually become your 100-percent base, with the spread of your obligation of 60 percent making up that. So it is practically unlimited as to the amount that can be used.

Mr. ECCLES. There is no limit of amount as to the Governments that we can put up. The amount that will be put up will depend on the expansion of the currency and upon the expansion of the Federal Reserve Bank deposits, because as they expand it will require more gold, and that in turn would make it necessary to put up more Governments to offset the drawing down of the gold certificates back of Federal Reserve notes to secure the increased deposits.

Mr. MONRONEY. In your list of purchases in which you outline this $18,000,000,000 worth of purchases, I see only one figure in there that is truly anti-inflationary. Some of the other figures are noninflationary, but the $3,000,000,000 that the individuals offered was the only thing that was anti-inflationary in that, was it not?

Mr. ECCLES. There is certainly more anti-inflationary value—a good deal—in that than in the other, and the $3,000,000,000 that we got from the public was all that was expected, but certainly we have got to get a great deal more than that from the public. That is only a small fraction of the funds that the public has. I should not say "a small fraction," but it is a comparatively small amount of the total funds that the public own or have.

Mr. MONRONEY. Your true danger of inflation is this everrising purchasing power in the hands of the individual without withdrawing it for taxes or for compulsory savings or for voluntary savings?

Mr. ECCLES. That is the real basis for it. However, there is some basis for getting corporations to invest in Government securities. For instance, if the insurance companies and the mutual savings banks put $3,000,000,000 in, those funds were the funds of the public who bought insurance and put their money in the mutual savings banks, and it was therefore just as anti-inflationary for them to put funds in those institutions and those institutions in turn invest those funds in Government securities as it would be had these people put the money directly in Government securities.

Mr. MONRONEY. Well, I would say they were non-inflationary and the individual purchases were anti-inflationary, because there is no corporation hoping to liquidate and no insurance company hoping to cash out its insurance policies and no mutual savings bank hoping to liquidate these time deposits.

Mr. ECCLES. No, but the people could have bought $6,000,000,000 instead of $3,000,000,000 if they had not put $3,000,000,000 mutual savings bank and bought insurance. That is the point I am making.

Mr. MONRONEY. Of course, those were all predetermined obligations. The insurance was, and largely the mutual savings bank deposits were.

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Mr. ECCLES. That is right. They are the accumulations over a period of time.

Mr. MONRONEY. I am talking about this crest or flood of purchasing power that Congress is not trying to get at in any effective way. We are kidding ourselves by trying to maintain a normal standard of living, when every figure in the book shows that you cannot have a normal standard of living in a diminishing consumer market. We are just like a dog chasing his tail around—we get nowhere. To get at the normal standard of living, you raise wages, which does not increase the consumer goods but causes higher prices.

Mr. ECCLES. That is exactly the condition.

Mr. FORD. I would like to ask you a question about branch banks. Is there a difference between a branch bank and an additional teller's window in an individual bank?

Mr. ECCLES. Well, there is a great deal of difference, yes.

Mr. FORD. Physically, yes.

Mr. ECCLES. In the first place, a branch bank is required to have a certain amount of capital for each individual bank. A teller's window requires no capital whatever.

Mr. FORD. These are merely teller's windows out around the country that are required to do the things that the mother bank does, and where the danger is, I cannot see. I have heard a great deal about this. You were talking about Transamerica as a holding company which holds 10 percent of the stock, for instance, of the Bank of America. Does it hold the stock of all these other banks?

Mr. ECCLES. It holds a good deal more than 10 percent of the stock.

Mr. FORD. Not according to Mr. Giannini.

Mr. ECCLES. If it does not directly, it does indirectly. It controls it as completely as if it owned 100 percent of the stock.

Mr. FORD. That may be. That is true of all those institutions.

Mr. ECCLES. It is the control that is exercised that the banking authorities are interested in. The actual ownership is not so important. If the control can be exercised with a small amount of stock, it can be just as good or just as bad as if it is exercised with a larger amount.

So far as the other banks are concerned, they own, as I understand, practically 100 percent of the banks in Nevada. They have a one branch-bank set-up in Nevada. Most of the bank deposits are in Nevada.

In the State of Oregon there are two large branch banking organizations. One is the United States National, which is the largest and which is owned in Oregon. The other is the First National, which is owned almost 100 percent by Transamerica, and is the second bank in size in the State.

Mr. FORD. There are four branch banking institutions in California.

Mr. ECCLES. You have more than that.

Mr. FORD. We have the Bank of America, the Citizens National Trust and Savings Association, the California Bank, and the Security First National.

Mr. ECCLES. That is in southern California. You have branch banking in northern California.

Mr. FORD. They came through pretty well in the depression. I cannot see what all this hubbub is about. To me they are just merely another window.

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Mr. ECCLES. I believe in branch banking. I have been a strong advocate of branch banking for a long while. I think I can make a very good case for branch banking. It is not the branch banking, as I understand it, that Congressman Patman was directing his questions to. It was the holding company, which is quite different from branch banking.

Mr. FORD. I realize the difference there, all right, but a great deal is said about the Transamerica controlling the Bank of America. As a matter of fact, when you say that a 10 percent holding would be sufficient to control. I thought that the yardstick that the Government agencies set up for a bank was that it be conducted according to the banking law, and whenever it stepped aside it would be subject to penalties. I thought that where they were doing a legitimate business, carrying the required resources, doing an efficient business, and rendering service to other people they were entitled to all the privileges of an individual bank.

Mr. ECCLES. The banking supervisory agencies have a great deal of discretion under the law. The law does not tell them when they are to grant a branch or when they are to grant membership to a nonmember bank or when they are to require that they build up the capital or the surplus or when they are to have a loan charged off or a bond depreciated. The law is silent on all that, and it gives great discretionary power to these agencies. There has been no discrimination, in my opinion, against the Bank of America or against Transamerica. They have had every privilege and every consideration that any other banking organization has had. They have wanted more privileges——

Mr. FORD. Well, that is true——

Mr. ECCLES. And because they did not get all the privileges that they wanted, because it was not felt that it was in the public interest they have claimed that we have discriminated and we have been arbitrary and capricious. I think they felt that way about all three of the Federal agencies.

Mr. FORD. May I make a comment right there? You say that the agencies that have control of these banks have a wide discretion, and it is so wide that they could actually ruin an institution if someone got it in his nose and had something against that institution. If that is any more dangerous than a holding company's powers, then I want to know what it is.

Mr. ECCLES. Of course, these agencies are the creation of Congress, and if they should choose to act in a manner contrary to the public interest, why, they take the risk of removal.

Mr. FORD. Except in the meantime they might do a great deal of harm.

Mr. ECCLES. What is the alternative? If you are going to have supervisory agencies, you have got to put some trust and confidence in them, and the men who compose these supervisory agencies are all appointed by the Chief Executive and they are confirmed by the Senate, and they take their oath of office. I do not know what the alternative is to that procedure.

Mr. FORD. The Bank of America and Transamerica have made repeated charges that they have been discriminated against. Do you not think it would be a wise thing to have them up here before this committee and get the low-down on it?

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Mr. ECCLES. I think it is up to this committee to determine that.

Mr. FORD. It is up to the committee to determine that, but I am trying to get your off-side opinion on that.

Mr. ECCLES. If this committee wants to investigate them, I think they should pass a resolution that would recite the purposes for their being called up here, or a bill that deals with the holding-company situation should be introduced, and that would be a basis for holding hearings, and that would bring them up before the committee; but just merely to bring them up before the committee I do not think would serve a very useful purpose.

Mr. FORD. Well, I am not so sure about that. This committee is charged with the responsibility of banking legislation, and it is one of the important banking institutions of the country. It is continually saying that it is being discriminated against. I think probably it would not be off color at all to bring them up here and find out what it is about, and then, after that questioning, with the people that they are accusing here, if we thought it necessary to enact further legislation, we could do it. I do not think that would be a bad plan at all.

That is all.

Mr. ECCLES. Well, I certainly would have no objection to it. Whatever the facts are in the situation, there could be no harm in bringing them out. I have felt for some little time that the Congress either should give possibly the Reserve Board powers to deal with this holding company situation, particularly in the case of Transamerica, or they should take the responsibility. It may well be that the action of the Federal agencies in refusing to grant charters for additional banks or permits to establish additional branches is contrary to what Congress would feel ought to be done.

Mr. FORD. I think it would be wise for a bank to conform to every requirement we have in the law, and if they do not do it there is something wrong. Particularly where we find one institution involved, I think it ought to be looked into.

The CHAIRMAN. We will resume tomorrow morning at 10:30 o'clock, Mr. Eccles, if you will return then.

(Whereupon, at 12:25 p. m., the committee adjourned until Tuesday, May 11, 1943, at 10:30 a. m.)

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COLLATERAL SECURITY FOR FEDERAL RESERVE NOTES

TUESDAY, MAY 11, 1943

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

STATEMENT OF MARRINER S. ECCLES—Resumed

The Chairman. The committee will come to order.

Mr. Crawford, did you want to ask him some questions?

Mr. Crawford. Governor Eccles, there were two or three questions that I had in mind yesterday morning that I did not ask you. One has to do with the 60 percent and the 40 percent referred to. I want to keep out of this question all the technicalities that we can and submit it in this manner. Let us assume that the commercial banks hold at the present time, we will say, $60,000,000,000 of bonds subject to being collateralized in connection with this particular bill. If the depositors should put the pressure on the banks to hand to the depositors the currency, would it be correct to say that those banks could forward on to the Federal Reserve the total of those $60,000,000,000 of bonds and receive in return $60,000,000,000 of notes?

Mr. Eccles. Yes.

Mr. Crawford. That is the practical question I wanted to bring out.

Mr. Eccles. Yes. They could borrow from the Federal Reserve bank of their district the par amount of the Government bonds on a bills-payable basis at a rate of not to exceed 1 percent.

Mr. Crawford. That answers my question.

Now, so far as your projected curves show, if you happen to have this information, and based upon the Treasury's announcement to the effect that it will have to sell approximately $70,000,000,000 worth of securities this year, would you care to make an estimate of the total securities which are likely to be held by the commercial banks as of next December 31? Then I want to follow that with another question, if you happen to have that, namely, the break-down of the figure you gave yesterday as to what portion of the $100,000,000,000 of demand deposits and currency will likely be represented by demand deposits as of December 31.

Mr. Eccles. The amount of Government securities that would be held by the end of the year by all of the commercial banks of the country, assuming that the Treasury would borrow $30,000,000,000 from the banks, which it has been indicated, based upon experience this year, ~~that it~~ is possibly an amount the commercial banks might

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be expected to take—we are hoping it will be less than that, but that is a possibility—the commercial banks would have—this figure is only a recollection——

Mr. CRAWFORD. That is close enough.

Mr. ECCLES. They change so rapidly and I see so many figures that it is sometimes difficult to remember all. It would be somewhere between 60 and 70 billion dollars.

Mr. CRAWFORD. As of December 31?

Mr. ECCLES. Yes. That is based upon those assumptions.

Now, the second question was with reference to the amount——

Mr. CRAWFORD. I think you said yesterday a rough estimate was that, as of December 31, we will probably have $100,000,000,000 in bank deposits and currency.

Mr. ECCLES. Yes.

Mr. CRAWFORD. And I was wondering if you cared to make a breakdown of two items of that $100,000,000,000.

Mr. ECCLES. Yes; I could estimate that. As of the 1st of May we had approximately 16½ billion. There was approximately 16½ billion of currency outstanding. Currency is increasing at an average rate of about $100,000,000 a week. We have 8 months left, and if that rate continues, the further currency expansion would be between 3 and 3½ billion dollars, so I would say by the end of the year that the currency outstanding might reach a figure of between 19 and 20 billion dollars.

Mr. CRAWFORD. Now, as that currency is pulled out, our excess reserves tend to diminish?

Mr. ECCLES. That is right, one for one.

Mr. CRAWFORD. And should the people, for one cause or another, decide to throw 10 or 15 billion of that back currently, it would affect excess currencies in the other direction?

Mr. ECCLES. Yes.

Mr. CRAWFORD. So you have a very interesting problem there, which is more or less beyond your control. When I say "beyond your control," I mean that it may force you from time to time to do some fast moving.

Mr. ECCLES. Well, the Federal Reserve could offset it by open-market operations in either buying or selling.

Mr. CRAWFORD. Now, you dropped one thought yesterday which interests me very much, if you do not mind a comment on it. I am very much interested in it.

Based upon the experience of the December selling and April selling of this roughly $18,000,000 in April, would you care to say whether or not there is a possibility that we may be able to stage the forthcoming sales and map out the program in such a way that the commercial banks' participation will not have to be put into the advance formula? In other words, leave it so that we can stage a security-selling program to cover individuals, industrial corporations, mutual savings banks, insurance companies, and Government agencies, leaving outside of the formula the commercial banks, so as to avoid some of the apparent trouble we got into in the last selling.

Mr. ECCLES. It not only could be done, but it should be done.

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Mr. CRAWFORD. That is what I want to bring out. It seems to me it is very necessary for us to do it.

Mr. ECCLES. The commercial banks should be used as the last line of defense in Government financing, and the bankers, who do not like inflation, and the public, who may understand it less, but who do not like it, should be made to understand that to the extent that the public do not purchase the securities that need to be sold and to the extent that the banks do not encourage their depositors and their customers to purchase the securities, just to that extent the banks will be required to make up whatever additional amount of funds are required by the Treasury.

I think an excellent job of education and understanding might well be done, and I think a greater pressure would be made on the part of everybody to get back into the Treasury funds that were being spent—that is, a greater percentage of it back into the Treasury that is being spent by the Government—and they would not be as likely to pursue the easy course of creating money through the banks' purchasing the securities. That, after all, is the very heart of the problem of what you are going to do about the inflationary development.

Mr. CRAWFORD. If that course that you just outlined were followed, and to the extent that it became necessary, the banks would probably be safe in every way in using most of their cash for the purchase of Treasury issues, would they not? In other words, let me illustrate it this way: Suppose bank A has $25,000,000 worth of bonds as of the present time and $7,500,000 of cash on hand, and we go ahead and extend this particular proposal and the Government Treasury and the Reserve System, and so forth, according to the conditions of the market, proceed to sell in such a manner that the banks are used as a mopping-up implement, we will say, taking only that which is necessary after all other sources have been explored and supplied with bonds.

With that kind of condition, bank A, to which I have referred, and the banking system as a whole, would be acting on a sound basis, would it not, if it proceeded to use, we will say, a considerable amount of that cash on hand for the purpose of buying bonds?

Mr. ECCLES. We—by "we" I mean the Federal Reserve—have tried to encourage the banks to utilize fully their excess reserves by the purchase of Government securities, particularly Treasury bills. The excess reserves of the banking system as a whole have been fluctuating between one billion and a half and two and a half billion dollars.

Mr. CRAWFORD. May I inject this right there? In other words, to the extent that this $7,500,000 that I referred to is represented by excess reserves, then, if that bank or that banking system proceeded to utilize that portion of the cash with which to buy short-term notes, it would be conforming to the program that you are now outlining?

Mr. ECCLES. Yes. It is what we would much prefer to see rather than see a wide fluctuation in the excess reserves, because a wide fluctuation in the volume of the excess reserves makes for less stability in the security markets.

Mr. CRAWFORD. That answers my question on that.

Mr. ECCLES. We do not like to see the banks operate on anything like a speculative basis—in other words, buy merely for the purpose

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of getting some rise and then sell—and to the extent that we maintain a very stable security market, the speculative opportunity pretty largely disappears; and to the extent that the excess reserve is reduced to a minimum, the market is in a more stable condition and it is a much smoother financing operation; and for that purpose we created a year ago what is known as a bill-buying program on the part of the banks by establishing an offering price for bills in each of the 12 Federal Reserve banks at three-eighths. In other words, we in effect posted a rate in which we agreed to purchase all bills offered at a three-eighths rate. That put the ceiling on the interest rate on 90-day Treasury paper.

We likewise give the banks the opportunity of buying back at a basis of three-eighths any bills which they sell. That enables them to adjust their reserve requirements on a weekly basis, and they need practically no excess reserves, if every bank would use that instrument for the purpose of utilizing fully the excess reserves that they have.

That has worked out very well, and for a time it appeared that the banks as a whole had to have excess reserves—they all seemed to think that they did. There was a feeling, I know, on the part of some of the bankers and some of the people in Government that you could not get the excess reserves down below maybe $3,000,000,000. Since we have established this bill-buying arrangement, they have done down to $1,500,000,000.

Mr. CRAWFORD. And they could go back up automatically?

Mr. ECCLES. The action is with the bank. If the bank wants more reserves, it can sell these bills.

Mr. CRAWFORD. That brings out the thought I wanted to develop.

Now, there is one other question that you may not want to comment on. Personally, I am afraid, as a member of the House, that the bond-selling drive of April, which was apparently $5,000,000,000 oversold, will dampen the spirit of Congress in two respects: One, cause us to ignore the necessity, from an inflationary control standpoint, of bringing forth new sources of revenue along the lines of the President's Budget message; and, two, that it will encourage us to avoid getting involved in any type of so-called enforced saving or following a course which will put sufficient pressure upon our people to absorb a lot of their present income.

This is my question, now. Have you noticed anything in your phase of the Government's work that would justify a thought of that kind?

Mr. ECCLES. Well, I cannot think of anything specifically. I think, however, that you have every reason to make the assumptions that you have. I feel somewhat the same way about it—that the public, and even a good many of the people, I think, in Congress, do not understand that the fact that the Treasury raised $18,000,000,000 in the financing has nothing to do with the kind of tax program that ought to be put into effect; that this $18,000,000,000 will siphon off only about $3,000,000,000 of the public's purchasing power; that the other $15,000,000,000 did not come from the individuals at all; and $3,000,000,000 in this is a comparatively small amount of the aggregate amount of purchasing power that the public will have in excess of the supply of goods available during the year 1943.

It is estimated that there will be an excess of purchasing power, taking the year as a whole, of somewhere between 40 and 45 billion

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dollars—that is, the difference between the spendable income after taxes on the part of all individuals and the supply of goods available will be between 40 and 45 billion dollars.

Now, to the extent that we could increase the taxes to absorb some of that 40 to 45 billion, that, of course, would be very constructive. To the extent that we do not absorb it through that means, then to the exen that we could sell more and more Governmen securities to the people of the country as a whole and they would hold those securities, that would accomplish the same result.

We should remember this: That the public are buying securities between drives, and so the fact that they purchased during the month of April, when the drive was on, approximately $3,000,000,000 worth; does that mean that that should be taken into account with the fact that they are possibly purchasing close to $1,000,000,000 worth every month? The people as a whole, on the basis of their monthly purchases, plus what they would buy during the drive, might purchase during the year between 15 and 20 billion dollars worth.

Mr. CRAWFORD. Of that $3,000,000,000 how much do you estimate represented Savings bonds?

Mr. ECCLES. That is right.

Mr. CRAWFORD. I say, how much of it represented Savings bonds? As I understand it, the $3,000,000,000 was the total sale to all individuals of all kinds of bonds.

Mr. ECCLES. That is correct.

Mr. CRAWFORD. What is the figures on the Savings bonds part of that $3,000,000,000? Do you happen to have that?

Mr. ECCLES. I do not have the figure for the drive, because it was left open until the 8th of May. They were so far behind in some areas in the issuance of the bonds that we could not get the figures at the end of April, and they carried over until the 8th of May in order to get the figures in. The last figure that I saw on it was one-billion-seven-hundred-and-some-odd millions. It would be my judgment that there would be at least 1¾ billion of the 3 billion in Savings bonds that went to individuals.

Mr. CRAWFORD. That is all I want to ask.

Mr. ECCLES. There is one point here, if I may say this, Mr. Chairman, to Mr. Crawford. It is somewhat in answer to a question that you raised a moment ago as to the impression that the public might get. I had anticipated that they might get that sort of impression, and in a radio statement that I was asked to make at the beginning of the drive, this is in part what I said on it:

> The success of the present drive is not measurable by the raising of $13,000,000,000 or some additional amount. That in itself is no problem, since the money can always be obtained through the inflationary medium of borrowing from the commercial bansk or the Federal Reserve banks. The measure of success of the drive will be the amount of money that is subscribed by individuals, and to some extent by corporations other than banks, nad the number of subscribers who participate. The money is there to get. It is estimated that even after paying this year's taxes the combined individual savings plus the corporate accumulations will aggregate approximately $70,000,000,000, $30,000,000,000 more than in 1942.

That is somewhat along that line.

Miss SUMNER. I was wondering if you would put your speech in the hearings.

The CHAIRMAN. Miss Sumner suggests that you put your radio address in the hearings.

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Mr. ECCLES. I do not object, but I do not know that it is particularly appropriate.

The CHAIRMAN. Suppose you put in the part that is relevant to this discussion.

Mr. ECCLES. If you just put in the part that I quoted, that will be sufficient.

Miss SUMNER. I was just curious about it.

Mr. ECCLES. I will be glad to send you one.

Mr. FORD. You said there would be $70,000,000,000 excess purchasing power. Do I understand that to be in excess, after taxes or after the absorbing of the $30,000,000,000——

Mr. ECCLES. The $70,000,000,000 covers corporate as well as individual; that is, all corporate accumulations in the form of reserves, depletion, depreciation, and all forms of cash income in excess of cash expenditures, as well as individuals' cash income in excess of expenditures, on the basis of the goods available for corporations and individuals, aside from war goods, of course.

see pp 9 & 27

Mr. FORD. I would like to ask this question, if you know the answer. I do not know whether you know it or not. If you do not know it, you can get it and put it in the record.

What is the amount of normal purchases for a minimum maintenance of our standard of living during the year in goods and services? Does anybody know that?

Mr. ECCLES. I do not know just exactly what you mean.

Mr. FORD. We have approximately $40,000,000,000 of excess purchasing power. Of that amount, what would we normally use to gratify the needs or the wishes, or whatever it is, of the public in its normal purchasing year?

Mr. ECCLES. It is estimated that there would be somewhere between one hundred and ten and one hundred and fifteen billion dollars of spendable income in the hands of the public after taxes; that there will be available at the present price levels around $70,000,000,000 of consumer goods and services available. So that after the consumers buy all of the goods and services that will be available for them at this price level, they will have approximately $40,000,000,000 to either pay off indebtedness, to invest in Government or other securities or assets, or to pay taxes.

Now, to the extent that they try to spend that $40,000,000,000 to buy a shrinking supply of goods and services, you put a terrific pressure on prices, you encourage black markets, you break down an effective control and rationing system. To the extent that you pull off in taxes those funds and induce the owners of those funds to invest them in Government securities, you reduce the pressure on a diminishing supply of goods and services.

Mr. FORD. You say there are $70,000,000,000 worth of goods and services available?

Mr. ECCLES. It is estimated that there will be a little more than $70,000,000,000 worth this year at the present price levels. I think the estimates run from seventy to seventy-three billion of present goods and services at the present price levels.

Mr. FORD. Is that before or after taxes?

Mr. ECCLES. The taxes have nothing to do with that.

Mr. FORD. Oh, yes; they do.

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The CHAIRMAN. Oh, no.

Mr. FORD. If there are $70,000,000,000 worth of goods available and we have an income of $110,000,000,000——

Mr. ECCLES. We have around $125,000,000,000 of income.

Mr. CRAWFORD. Mr. Jones' last estimate was $139,800,000,000.

Mr. ECCLES. For what?

Mr. CRAWFORD. For the calendar year 1943, this year.

Mr. ECCLES. Was that national income?

Mr. CRAWFORD. National income.

Mr. ECCLES. I am not speaking of national income, because I leave the corporations out. I was speaking of what we call spendable income in the hands of individuals. The spendable income in the hands of individuals after taxes, on the basis of the present tax laws, will leave in the hands of the individuals in the aggregate somewhere between one hundred and ten and one hundred and fifteen billion dollars. Now, of that one hundred and ten or one hundred and fifteen billion dollars a substantial amount will go to buy insurance, will go in savings banks, some will go to pay debts, although debts are in better shape than they previously have been in a very long time, and a substantial amount will go into the purchase of Government securities.

To the extent that we could get the entire amount of the forty or forty-five billion to go into savings and avoid the attempt to spend it, when you cannot increase the supply of goods and services above the seventy- or seventy-two- or seventy-three-billion-dollar mark, you of course would avoid the inflationary pressure.

Mr. SPENCE. How fast are the consumer goods and services increasing?

Mr. ECCLES. They are decreasing. They are not increasing.

Mr. SPENCE. With the immense demand for them, what do you think the ultimate result will be?

Mr. ECCLES. You mean of goods continuing to decrease?

Mr. SPENCE. No. As the pressure grows less for the furnishing of materials of war, would not the consumer goods increase?

Mr. ECCLES. The present war program contemplates a substantial increase in war goods between now and the end of the year. There is not any program or prospect of a decrease in the demand for war goods.

Mr. SPENCE. What has been the picture with reference to consumer goods and services? How much has it decreased in the last year?

Mr. ECCLES. I do not remember last year's figures, but it has been a constantly decreasing line, and there has been a large inventory carry-over from 1941 into 1942. Even up to the middle of 1942 the supply of consumer goods was increasing, so that by the end of 1942 you possibly had the largest inventory of consumer goods in the hands of wholesalers, retailers, and manufacturers that you ever have had in our history.

The reason there is not very much more pressure now than there is is that we are living to a considerable extent on inventory—that is, we are augmenting the current supply with the carry-over inventory, which is now rapidly declining. By the end of the year the situation will be much more tight than it is now, because the demand today is exceeding the supply, and the public are using inventories.

As those inventories disappear, and they have available only a reduced current supply, you then will be able to see the pressure upon

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the price structure with the increased supply of money in the hands of people, and you likewise will be able to see, I think, the increasing problem of rationing.

Mr. SPENCE. Has there been a constant decrease in the supply of consumer goods since the middle of 1942?

Mr. ECCLES. Yes.

Mr. SPENCE. How great has that decrease been?

Mr. ECCLES. I do not have the figures, and I am thinking of it as an over-all figure. There may be certain consumer goods that did not diminish, but in the aggregate consumer goods have been diminishing very substantially. I do not remember. I do not have the figures.

Mr. SPENCE. What is the philosophy of having 40 percent gold against notes and 35 percent against deposits of gold certificates?

Mr. ECCLES. What is that?

Mr. SPENCE. What was the philosophy of that? What was the fundamental reason for placing 40 percent gold against notes—gold certificates—and 35 percent against deposits?

Mr. ECCLES. I do not know to tell you exactly what the philosophy was. I can only tell you what I assume the philosophy may have been, and that is that it would restrain an inflationary development.

Mr. SPENCE. It was not for any margin of safety?

Mr. ECCLES. No; I do not think that it would have anything to do with the question of safety. I cannot see that it would. It was felt, and I suppose properly so, that you had to tie your supply of money to some sort of anchor, and when you began to get close to the legal limit, the Congress would take a look at it and see what the inflationary development was and either reduce the gold reserve requirements so further expansion could go on or they would do something to prevent the expansion.

It is an excellent thing to call to the attention of the public, it seems to me, a development in our economy that certainly might cause a consideration of making changes in matters of reserve, either changes in the gold reserve required or changes in other reserves.

Certainly, at the time the Board was given power to fix the reserve requirements of member banks there was a good deal of discussion and airing of the whole principle of reserves, and I think all that is part of our educational process in the monetary and credit field.

Mr. SPENCE. Do you think it has worked, practically, and has what you said about it been carried out?

Mr. ECCLES. Well, of course, I could not contemplate, and nobody else could contemplate, in my opinion, the volume of gold imports that we were going to get into this country and the volume of silver certificates that were issued, both of which very greatly augmented the reserves of the banks to the point where the Board did not have adequate power to absorb those excess reserves that were created. They were far in excess of the power of the Board to absorb them through the power that the Congress gave to change reserve requirements. The limit was put on the power to change reserve requirements.

Miss SUMNER. Mr. Eccles, when you refer to $70,000,000,000 worth of goods and services, you do not include in there land, do you?

Mr. ECCLES. No; I am speaking of consumer goods, not capital assets.

Miss SUMNER. You did not include securities, did you?

Mr. ECCLES. I spoke only of consumer goods, goods that people can consume.

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Miss SUMNER. Are you not missing a trick there when you omit that, to this extent? Always before when we have had inflation there has been a great speculation in land, for instance, the Florida one, and then in 1928 in these small real-estate developments and securities, which is a place where it usually goes. It seems to me that in both those cases we have already started. The prices of farms have gone up. The prices of securities seem to be going up. Is that not the outlet for a lot of this money?

Mr. ECCLES. Well, the excess purchasing power certainly does not go into Government securities, and it cannot go into——

Miss SUMNER. I am not referring to that. I am referring to stocks.

Mr. ECCLES. I say, excess purchasing power—and that is what it is; it is excess of goods available—and if it is not taken back in taxes and if it does not go into Government securities, then it either lies idle in the banks or it will go into other assets—farm properties, stocks, and so forth—and, of course, that is a speculation of a kind. It is the least dangerous speculation from the standpoint of the people as a whole.

The inflation that is fraught, of course, with the greatest danger is the inflation that increases the cost of living greatly, and that increases the demand for wages, increases the demand for farm prices, and so forth, and that is the dangerous type.

To the extent that excess purchasing power is available and it is not diverted into Government securities, it will likely go into real estate and stocks.

Mr. FORD. How about equity securities?

Mr. ECCLES. And I suppose equity securities largely.

Miss SUMNER. Have you thought about the fact that there is a large extent of hoarding in the country? I mean, a lot of people have bought necessities in anticipation of inflation and in anticipation of rationing. For that reason it is more likely to go into farms and lands and such other investments than into consumer goods. A lot of people have a lot of sugar and coffee saved up in anticipation of inflation and rationing.

Mr. ECCLES. Of course, the fact that the people did buy as they did in 1941 and 1942, based on the report of sales from department stores, which is a cross section of public buying, does indicate that people do have an inventory of their own in the form of clothing and I suppose home furnishings, and that sort of thing, that delays the pressure of excessive buying; but things wear out pretty rapidly. The fact that people do have supplies tends to reduce the present pressure.

At the same time, the fact that it became necessary to ration to the extent that rationing has been necessary indicates the amount of inflationary pressure on prices. In the last war we had no rationing. You can imagine at this time, if there had been no rationing whatever, what would have happened to the price structure. In the last war there were no price ceilings put in effect. You can imagine what would have happened in this war had price ceilings not been put on. It would have been so much worse than what happened during the period of the last war that there would be just no comparison.

The only reason that we have not had an almost uncontrolled price situation at the present time is the price freeze, the price ceiling that was put on about a year ago, and also the price ceiling that was put on

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raw materials before that, such as copper and steel—there were many price ceilings that were put on raw materials in 1941—and rationing, as you all know, has been put into effect on a great number of articles, particularly food articles.

Now, even with all that has been done, we see prices rising. We have seen the cost of living go up. We have seen the demands of farmers and the demands of labor for more consideration to meet the increased prices. The job that has been done this time has been a much more difficult one.

The CHAIRMAN. I want to ask you one more question about one particular phase of this bill, so that the legislation may be fully understood, and it does not seem to be fully understood by some members of the committee.

What happens under the operation of this bill is that Federal Reserve notes will be protected by direct Government obligations 100 percent instead of having as security back of those notes commercial paper or other forms of eligible paper. That is what this bill would bring about; is that not right?

Mr. ECCLES. Well, that is partly it. That is correct as far as you go.

The CHAIRMAN. That is the change we make?

Mr. ECCLES. You substitute Government bonds in lieu of eligible paper.

The CHAIRMAN. That is the only change this bill makes?

Mr. PATMAN. To the extent of 60 percent.

The CHAIRMAN. No.

Mr. ECCLES. Let us put it this way. Federal Reserve notes must be secured first by not less than 40-percent gold. The balance can be secured, if you had gold certificates, entirely by gold certificates or by commercial or eligible paper.

The CHAIRMAN. Oh, yes. That is all very clear. What I am undertaking to develop here and make clear is what would result from the practical operation of this bill. The only change would be that Federal Reserve notes issued under the provisions of this bill would be secured by 100-percent Government obligations instead of 100-percent commercial paper or other eligible paper?

Mr. ECCLES. That is right.

The CHAIRMAN. You would still carry the same amount of gold—that is, gold certificates—as protection for the notes issued under the provisions of this bill that you carry as protection for Federal Reserve notes issued under any other plan; is that not correct?

Mr. ECCLES. Let me see. You put up the gold certificates to the extent that you have gold certificates. Then you make up the deficiency by eligible paper, if you have it, and if you do not, you make it up by Government bonds.

The CHAIRMAN. Wait a minute. That is the very thing I want to clear up, and I want to make this clear. Will we be required, under the operations of this bill, to carry the same amount of gold protection or gold-certificate protection back of notes issued under this bill that is the case with respect to notes issued where other collateral is placed in other Government obligations?

Mr. ECCLES. Yes. You will be required to carry 40 percent of gold, and that is all.

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The CHAIRMAN. Against these notes, just like you do against any other Federal Reserve notes?

Mr. ECCLES. You will be required to put it against all Federal Reserve notes.

The CHAIRMAN. In other words, there is no Federal Reserve note, nor can one be issued, unless it is protected by gold coverage in the form of gold certificates, to the amount of 40 percent?

Mr. ECCLES. That is right.

The CHAIRMAN. That applies to these notes, as well as any other?

Mr. ECCLES. Yes.

The CHAIRMAN. I wanted to develop that.

Mr. PATMAN. It should be remembered that this is gold that cannot be delivered.

The CHAIRMAN. What I am trying to develop is the operation of this bill and the operation that would be required in the absence of this bill.

As a matter of fact, your Federal Reserve notes—all of them—have first the obligations of the Federal Reserve bank; then they have the obligation of the Government?

Mr. ECCLES. That is right.

The CHAIRMAN. Then back of it are all the assets——

Mr. PATMAN. Would you mind breaking that down? What is the obligation of the Federal Reserve banks. It has a capital stock of $140,000,000. The rest of it belongs to the depositors and the member banks?

Mr. ECCLES. Yes.

Mr. PATMAN. So they have not got more than $140,000,000.

Mr. ECCLES. They have got more than that.

Mr. SPENCE. Here is what the act says:

> Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for.

That refers to all of the collateral. In addition to that it seems they must have 40-percent gold as against the notes issued. I do not see anything in the law that requires 60-percent collateral and 40-percent gold.

If you read the law, it seems to me you are required to put up the entire collateral and put up 40-percent gold also.

Mr. ECCLES. The 40-percent gold is part of the collateral that you put up. The balance, the 60 percent, can be put up in gold certificates, if you have the gold certificates; and up until last October it was provided by gold certificates, so you had 100-percent gold coverage.

Mr. SPENCE. I understood that was the practice, but in reading the law I cannot see any justification for that, unless there is some other section, because this says plainly that—

> Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for—

and then it provides what kind of collateral can be offered, and then it also says:

> That until March 3, 1935, or until the expiration of such additional period, not exceeding 2 years, as the President may prescribe, the Board of Governors of the Federal Reserve System may, should it deem it in the public interest, upon the

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affirmative vote of not less than a majority of its members, authorize the Federal Reserve banks to offer, and the Federal Reserve agents to accept as such collateral security, direct obligations of the United States.

That is about all it says.

Mr. PATMAN. Is that section 16?

Mr. SPENCE. That is subdivision 2, section 16.

Over in subdivision 3 it says that there shall be deposited in gold certificates not less than 40 percent.

Mr. ECCLES. Well, I am not a lawyer. I am perfectly sure——

Mr. SPENCE. I have only scratched the surface of that. I have not looked into it.

Mr. ECCLES. I am perfectly sure that what has been done has been performed very strictly according to the statute, and if you would like the references, I will be glad to have our lawyer send them to you.

Mr. PATMAN. May I make just one suggestion? The chairman suggested this. I am afraid you left the wrong impression about the obligations awhile ago.

I happen to have a $10 Federal Reserve note here. That is like all the notes as far as the wording is concerned. They are not obligations of the Federal Reserve banks. They are really obligations of the United States Government. If you will read the statement on the Federal Reserve note, you will find that the bank does not obligate itself to pay the note. Nowhere on there does it obligate itself to pay the note.

It says:

FEDERAL RESERVE NOTE

The United States of America will pay to the bearer on demand $10.

So every obligation that is issued by the Federal Reserve banks in the form of Federal Reserve notes in an obligation of the United States Government. It is really in effect a mortgage upon all the property of all the people in the country and a levy upon all incomes——

The CHAIRMAN. So long as it is an obligation on the part of the United States Government, some features may be desirable and may have some practical operation, but so far as the validity and the solvency of the Government are concerned, it is, of course, ridiculous to have some country merchant secure a Government obligation by putting up his obligation. There is in it, of course, this automatic control to which Mr. Spence has referred, because there is a limit to commercial paper and there is a limit to gold, and from that standpoint it may be true.

Mr. ECCLES. Can you conceive of any kind of situation that could develop, either inflation or deflation, that would require Federal Reserve notes to be redeemed? Redeemed by the payment of what?

Mr. PATMAN. More Federal Reserve notes.

Mr. ECCLES. That is right. It seems to me it is an academic discussion—the whole idea of having a Federal Reserve note secured in the first instance—unless it be with the gold backing; but to think that you are going to make the currency, the currency of the realm here, better or worse by putting up Government bonds or putting up other forms of security seems to me to be quite ridiculous on its face.

Mr. PATMAN. You want this bill amended, then, do you not?

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Mr. ECCLES. I do not want to get into a controversy over it. There is some feeling that notes are made better because they are secured, and if some people feel better about it, certainly I cannot see any objection to it; but the security makes the note no better and no worse. They are good because the Federal Reserve System is an agency created by the United States Government for the purpose of providing currency in accordance with the provisions of the law, and the currency of the Federal Reserve System is very largely the only money that we use in this country, outside of our checking accounts or what we call bank money.

There was injected into it the silver certificate, which supplies a portion of our currency. I think we sometimes lose sight of that fact and begin to think that the security of the currency has something to do with the collateral back of it, when, as a matter of fact, the security of the currency is its purchasing power in terms of goods and services and things that people want. That is the value of the currency, not what you have deposited back of it in the form of gold, Government bonds, or anything else.

Mr. TALLE. Mr. Chairman, I would like to ask a question.

The CHAIRMAN. Mr. Talle.

Mr. TALLE. I believe there is one point that has been overlooked in this connection. The national banking system was 50 years old when the Federal Reserve started, and one of the criticisms of the currency issues under the national banking system was that the national bank notes were not elastic—in fact, some critics said they were perversely elastic, because they expanded when they should have contracted and contracted when they should have expanded. One argument for the Federal Reserve was that elasticity of currency should be brought into the picture, and therein lies the reason for the use of eligible paper plus gold as backing for Federal Reserve notes.

Now, when the eligible paper is removed it will automatically, it seems to me, remove from your Federal Reserve notes the elasticity which was sought when the Federal Reserve System was established. By using bonds instead of eligible paper, the elasticity will be out of the picture. If there is elasticity, it will be of the chewing-gum variety. Expansion is possible, but true elasticity would not be there, because there would be no contraction.

Mr. ECCLES. Do you want me to comment on that?

Mr. TALLE. If you will.

Mr. ECCLES. I think what you say is correct insofar as the assumptions go when the Federal Reserve System was set up—that, as business expanded, business borrowing with the banks would expand, and in turn the need for currency would expand.

Mr. TALLE. There is supposed to be a response to seasonal variations and conditions.

Mr. ECCLES. That is right; but, of course, as conditions developed over the period of the twenties and the early thirties, they demonstrated that such was not the case at all. During the period of the twenties business expanded and the volume of business loans diminished, in exactly the opposite direction from what they were expected to go, because business was largely financed out of earnings that they retained in their business and out of the sales to the people of the country—stocks, bonds, and securities.

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Most of the large businesses did not rely upon the banks for borrowing; and, as I say, business loans declined all during the twenties, even though the volume of business activity increased. So that demonstrated that there was no direct relationship between the volume of business activity and the volume of business borrowing and the volume of currency that would be used in response to the expansion of business activity.

Now, when the thirties came, this is what happened. When business activity was at its very lowest ebb, just before the bank holiday, the volume of currency was at the highest peak it had ever been. In 1929, at the peak of activity, when the national income was about $80,000,000,000, which was the highest national income that this country had ever had, the volume of currency was running around $5,000,000,000. In 1933, just before the bank holiday, when the national income had dropped to approximately $40,000,000,000, the volume of currency increased to $7,000,000,000. So that the whole theory which you have just outlined was demonstrated not to be practical in its application when certain conditions developed.

Mr. TALLE. In other words, we have not enjoyed the elasticity which the Federal Reserve notes were thought to bring?

Mr. ECCLES. Oh, you had elasticity. Otherwise they could not have contracted and expanded to the full extent that they have contracted and expanded. The elasticity in the currency is measured by the increase or decrease in their volume or in their supply to meet the public requirements.

Mr. TALLE. And at that time we did use gold and eligible paper?

Mr. ECCLES. In the period of the twenties?

Mr. TALLE. Yes.

Mr. ECCLES. That is right. We had sufficient to get by during that period.

Mr. TALLE. Whereas now, when we do not use eligible paper, insofar as there ever was any elasticity, it must disappear if we use Government bonds?

Mr. ECCLES. So far as the currency is concerned, there is very great elasticity. It is increasing at the rate of $400,000,000 a week. I cannot imagine a greater degree of elasticity.

Mr. TALLE. You mean $100,000,000 a week?

Mr. ECCLES. I mean $100,000,000 a week; $400,000,000 a month. So there is very great elasticity, and the elasticity that is provided in this country is the elasticity that is provided in every country, both totalitarian and democratic, through their central bank. ~~the difference being that in this country we require collateral back of the notes and the other countries do not require it. That is the only difference.~~

Mr. TALLE. In this instance the elasticity is one way only. It is expansion brought on by the war, which is a different thing from what was contemplated under the Federal Reserve Act. It does seem to me that the backing which is now proposed for Federal Reserve notes is not different from the backing which was used for the national-bank notes and still is—the Federal Reserve bank notes—and the possibility of expansion and contraction, which is supposed to be in eligible paper, disappeared.

Mr. ECCLES. It was a theory. It did not exist in fact. It did not disappear, because I say a thing cannot disappear if it never existed.

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Mr. TALLE. In that case the charge of weakness against the national-bank notes was unfair.

Mr. ECCLES. The national-bank notes could neither expand nor contract. There was no means of expansion of the national-bank notes, and the reserves were carried in the private banks. We had no central-bank mechanism. We were a debtor country, and we were largely tied to the pound sterling. Our money was largely being managed through the management of the gold standard by the Bank of England.

Mr. TALLE. They were limited by the amounts of special Government bonds issued by the Government for that purpose.

Mr. ECCLES. Well, they were limited by another factor, too. They were limited by the capital of the national bank. They could issue national-bank notes only to the extent of the national bank's capital and to the extent that they qualified by buying Government paper that was eligible for circulation—that is, the Government bonds that were eligible as collateral for circulation.

Mr. TALLE. Insofar as any eligible paper is held in the Federal Reserve System at the present time, what type of paper is it?

Mr. ECCLES. I could not tell you. There is only $9,000,000 worth of it.

Mr. TALLE. Just $9,000,000?

Mr. ECCLES. About $9,000,000 is the aggregate amount of eligible paper that has been used as collateral back of this sixteen billions of currency.

Mr. TALLE. It would be so fractional that it would be of no account?

Mr. ECCLES. It would be of no account whatever.

Mr. TALLE. If I may suggest one further thought, would it not be a good idea—not that I criticize the educational program that is used for promoting sales of Government bonds; I think that is fine—to expend a portion of that energy toward getting the payment of higher taxes popular?

Mr. ECCLES. I think I personally have spent a good deal more energy on advocating higher taxes than I have on the sale of Government securities; but, as a practical matter, the Federal Reserve System could not very well ask their entire organization to go out and to advocate a tax program, whereas the Reserve System organization can advocate the purchase of Government securities by individuals and corporations.

Mr. TALLE. Yes. I had no thought of asking the Federal Reserve System to do that, but I think the Treasury should.

Mr. ECCLES. Well, the Federal Reserve is carrying on the sale of Government securities. The president of each Federal Reserve bank is the chairman of the War Finance Committee of his district and has selected the committee to direct the whole sale of Government securities throughout each of the Federal Reserve districts. Now, true, they are operating under the Treasury, but the Treasury works through the Federal Reserve organization as their fiscal agent in connection with the financing.

Mr. TALLE. I think it is a mistake to suggest to people that it is a sacrifice to buy Government bonds.

Mr. ECCLES. So do I.

Mr. TALLE. There is a sacrifice in paying taxes, but certainly not in buying Government bonds.

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Mr. ECCLES. That is true.

Mr. TALLE. Then why do they publicize the fact that buying war bonds is a sacrifice and why do they insist that we must buy more bonds, even though it is a sacrifice? The purchase of a bond is not a complete transaction at all, because the obligation is still there, and some day it must be paid.

Thank you, Mr. Chairman.

Miss SUMNER. Is not Mr. Ruml governor of the Federal Reserve bank or chairman of it?

Mr. ECCLES. He is director of the Federal Reserve Bank of New York and is the chairman. That is not a salaried position or job. All the directors of the Federal Reserve bank are on a purely honorary appointment or position.

Miss SUMNER. He advocated, ex-officio, that no 1942 taxes be paid.

The CHAIRMAN. Dr. Smith.

Mr. SMITH. Mr. Chairman, I am concerned with the increase in Federal Reserve notes you have in circulation and money outside the Treasury. By "in circulation" is meant, as I understand it, the circulating currency that is outside the Treasury, outside the Federal Reserve Banking System, and in the banks throughout the country and in the hands of the public. That is correct, is it not?

Mr. ECCLES. Well, I do not know that I understand your question, Dr. Smith.

Mr. SMITH. I just wanted to get the meaning of what is meant by "in circulation" first. "In circulation" simply means that currency which is outside the Treasury and also outside the Federal Reserve banks and in the commercial banks and in the hands of the public, of course, including also the savings banks; that is correct, is it not?

Mr. ECCLES. No; I do not think that is entirely correct. "In circulation" may mean Federal Reserve notes that are in the Federal Reserve banks that have not been paid out but that have been issued.

Mr. SMITH. I thought we considered that and classified that as money outside the Treasury but not necessarily in circulation.

Mr. ECCLES. No. It is Federal Reserve notes outstanding. Now, those are the notes that have actually been issued by the Federal Reserve agent with the necessary gold certificates and other collateral to have those notes issued. Then there are the Federal Reserve notes in actual circulation, which is a different thing. For instance, on April 30 the amount of Federal Reserve notes outstanding was $13,-646,000,000. The amount of Federal Reserve notes in actual circulation was $13,127,000,000. So there is a stock of notes, because you do not just issue the notes the day they are paid out.

Mr. SMITH. Well, that corresponds with the definition that I stated. What is the measure of determining what amount of these notes that are in circulation—Federal Reserve notes we are talking about now—is in the form of bank deposits? About the only thing they have is the cash involved; is that not correct?

Mr. ECCLES. You mean how much of these notes are held by the banks themselves?

Mr. SMITH. How much of the notes are held in the banks and what portion of those notes is held by the public in the form of hand money, in their pockets, over the counter, and so forth?

Mr. ECCLES. Of course, the large bulk of it is held by the public. Just what amount the banks might carry in their vaults, I do not know,

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but they carry in the vaults only an amount that is necessary to have on hand to meet the day-to-day demand. They can ship back to the Federal Reserve bank without any expense. The Federal Reserve bank absorbs the expense of shipping currency both to and from the Federal Reserve bank.

Banks do not carry large amounts of currency. They carry the very minimum amount of currency that is needed to meet the day-to-day demands of the public.

Mr. SMITH. So, of the amount of currency that is classified as being in circulation but a very small proportion is held by the banking system?

Mr. ECCLES. That is right.

Mr. SMITH. Now, in going over the yearly increase of Federal Reserve notes since 1929, I find that we had in 1929 $1,862,000,000 of Federal Reserve notes. Let us say 1¾ billion. That had increased by the end of 1941, the last month, to a little more than $8,000,000,000.

The thing that is of great interest here to me is the accelerating rate of increase in Federal Reserve notes. For example, we have an increase, as I figured it out here hurriedly, from the end of 1940 to the end of 1941, of from $5,830,000,000 to $8,138,000,000, or 38 percent. That was from the end of 1940 to the end of 1941.

Now, from January 1942 to January 1943 we had an increase of Federal Reserve notes of from $8,253,000,000 to $12,152,000,000, or 47 percent.

Going back over the yearly increases prior to 1940, I find that from the end of 1930 to the end of 1931 there was an increase in the amount of Federal Reserve notes from $1,641,000,000 to $2,603,000,000, or 58 percent. However, in that instance the absolute increase was only $962,000,000 as compared with $3,899,000,000 from January 1, 1942, to January 1, 1943.

Your statement that the increase amounts at the present time to about $100,000,000 a week, or about $400,000,000 a month——

Mr. ECCLES. That is an average.

Mr. SMITH. An average over what period of time?

Mr. ECCLES. Over a year.

Mr. SMITH. Over the last year?

Mr. ECCLES. About that.

Mr. SMITH. That would approximate more nearly the probable amount of increase that will take place, but, as anyone can see, this is an enormous increase in the circulating currency. It represents something entirely new in our monetary history, unless we go back before the United States was founded.

What I am wondering about is this: whether the Federal Reserve banking system are giving due consideration to this factor. What is going to happen if this circulating currency continues to increase? At the present time we have over sixteen billion in all, about twelve and one-half billion of Federal Reserve notes and the remainder so-called Treasury currency.

Mr. ECCLES. $13,646,000,000, as of April 30.

Mr. SMITH. That is outstanding. I am talking about in circulation.

Mr. ECCLES. $13,127,000,000.

Mr. SMITH. In circulation?

Mr. ECCLES. In circulation as of April 30.

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I do not know whether you were here or not, Mr. Congressman, but I read into the record yesterday the volume of Federal Reserve notes outstanding on April 30, 1939, and on April 30 each year since then.

Mr. SMITH. I am taking the circulation statement put out by the Treasury as of March 31, 1943, so my figures are slightly different from yours, because you have the April figure.

Mr. ECCLES. Yes.

Mr. SMITH. But this volume of circulating currency is in the hands of the public, outside of the banking system. It is apparently being hoarded.

Mr. ECCLES. No; I do not think that is true. Some of it is hoarded, but as a general rule I would not say that it is based on any excess amount of hoarding.

Mr. SMITH. How do you explain, then, that we got along with five billion of currency in 1939, with a volume of common consumer commodities certainly as high as exists at the present time, or is that correct?

Mr. ECCLES. No. They are much higher now than they were in 1939.

Mr. SMITH. The common consumer commodities?

Mr. ECCLES. Yes.

Mr. SMITH. How much higher would you say the volume is now in dollars as compared with 1939?

Mr. ECCLES. I could not give you the figures, but some items are 100 percent higher. Some are 10 percent higher. Everybody admits that the cost of living since that time has gone up, say, approximately 25 percent. If you take food, it has gone up approximately 40 to 50 percent from 1939 up to the present time, so that there is a very substantial increase.

You are concerned about the expansion of the currency. I see no reason why you should be more concerned about the expansion of the currency than you are about the expansion of the demand deposits in the banking system, because they are one and the same thing. Every demand deposit could be drawn out in currency or all this currency could be put back into demand deposits.

The volume of currency is no measure of inflation. You have got to take currency and deposits together as the total supply of purchasing power. But then if you want to get at the real purchasing power add to that the volume of Government securities in the hands of the public that could be readily converted. If you want to project that for the next year or two you will get some vision of the enormous inflation potential, and that might indicate to Congress the great need of a very much stiffer tax system.

Mr. SMITH. Let me make myself clear on this question of taxes. I agree fully with those in Congress who believe that we should tax more and more, so that I am not in disagreement with you on that particular point.

I also understand that you cannot separate the circulating currency from bank deposits for the purpose of determining potential or actual inflation, but I cannot quite conceive how, with the decrease—and it is an accelerating decrease—in both volume and dollar value of common consumer commodities and this enormous increase in circulating currency you do not have this currency hoarded.

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Mr. ECCLES. Well, I could possibly throw a little light upon that. I think the same question came up a short time ago when I was before the committee, and I indicated what I thought were some of the reasons for this very substantial expansion in currency. There are several reasons for it. In the first place, you had an enormous increase in the total national income. Pay rolls are more than double what they were in 1939. Pay rolls are almost all made in currency. Our armed forces are paid in currency. That currency is carried around with them. They are not at home. Their currency has to be shipped all over the world, and it cannot readily get back to our banks. It is carried all over the world by our soldiers, our sailors, and our merchantmen.

War workers are away from home—many of them—and they carry with them currency.

So that when you consider the great expansion in the armed forces, the great expansion in the number of workers, the substantial increase in the cost of living, and then add to that the increase in bank service charges, which have been a very important factor—the banks have practically ceased to pay interest on money; most of them used to pay 4 percent on savings accounts and now a great many of them pay nothing; there are a few of them that pay more than 1 percent—you get the situation we are facing. Many of the banks charge for opening accounts. They charge for closing accounts. They charge for activity of an account. If the balance is below a certain amount and they issue more than a certain number of checks they charge for checks issued over that number.

The banks, due to a great reduction of income from loans, which have dropped substantially, and due to the very low rates of interest that they are able to get, and due to their greatly increased cost of doing business, because there is a great deal of increased activity, in order to operate on a profitable basis at all they have had to reduce greatly the interest they pay on money, and they had to put in all these service charges, which meant that a lot of these people just do not use bank accounts and they use currency instead.

Those factors I think are largely responsible for this increase in currency.

Mr. SMITH. Now, as I understand it, there is no limit to the amount of Federal Reserve bank notes—not Federal Reserve notes, but Federal Reserve bank notes—that may be issued; is that correct?

Mr. ECCLES. There is no limit in the law.

Mr. SMITH. And there is a theoretical limit in the law as to the amount of Federal Reserve notes that can be issued?

Mr. ECCLES. There is a definite limit based upon the gold requirements, and in that connection, yesterday these questions were asked me and I said I would get the information, Mr. Chairman. I think it was Mr. Patman who wanted to know the expansion of bank deposits and Federal Reserve notes that was possible——

The CHAIRMAN. On the present amount of gold.

Mr. ECCLES. Yes; that was possible on the present amount of gold.

The CHAIRMAN. What is that amount?

Mr. ECCLES. It is very complicated. It is not simple.

The CHAIRMAN. You can file that.

Mr. ECCLES. You have got to make these assumptions to show that the thing is not as simple as was indicated yesterday.

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The CHAIRMAN. You have got that prepared?

Mr. ECCLES. I have got it to put in the record for those who want it.

The CHAIRMAN. That will satisfy Mr. Patman.

Mr. SMITH. I would like to ask one other question. I repeat that I am concerned about the enormous increase in circulating currency. It is your definite opinion, Mr. Eccles, that this currency is not being hoarded?

Mr. ECCLES. Well, I do not think that is an important factor. Of course, you need to define "hoarding." When people carry more currency on them than they need for the day or the week, you might say they are hoarding. You might say they are justified in carrying with them currency that will last a month. So it is a question of the definition of "hoarding." If hoarding means the withdrawal of money from a bank which is put in a safe-deposit box because of a fear of the banking system, then I think there is not any hoarding for that reason.

Mr. SMITH. That is all.

The CHAIRMAN. It is well understood that most of the members who are absent, such as Mr. Wolcott, Mr. Ford, Mr. Patman, and others, all favor the favorable report of this bill. Without objection, the chairman shall report the bill and do all we can to secure passage of it.

Mr. SMITH. Always with the reservation to be free to do what we want to do on the floor.

The CHAIRMAN. Thank you, Mr. Eccles.

(Whereupon, at 12:20 p. m., the committee adjourned.)

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36

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