

March 5, 1947.

Dear Allan:

I enclose a copy of the statement I read to the Committee yesterday in an effort to correct the badly garbled reports of my previous day's testimony.

I would be interested to have your comments. We didn't have much time to prepare it, but I felt it dealt fairly objectively with this complicated subject. I am having copies sent to all of the presidents.

With best regards,

Sincerely yours,

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York 45, New York.

Enclosure



**FEDERAL RESERVE BANK
OF NEW YORK**

45
NEW YORK ~~7~~, N.Y.

March 28, 1947.

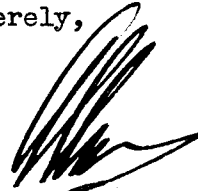
Honorable M. S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Marriner:

I have never replied to your note of March 5th with which you sent me a copy of the statement you read to the Banking and Currency Committee of the House on March 4th in order to clear up the mess which some of the news reports had made of your testimony on the previous day. I think your statement was a good one and should leave no doubts as to the views you hold and the reasons you have for holding them. With most of what you said in the statement I am in agreement.

I have also read the statement you submitted to the Committee on March 3rd, and some of the record of the hearing. I hope you will not feel that I am not being objective when I say that I wish you had not indulged so freely the penchant you have for taking a swat at the Government security dealers. I think it leads you into statements which are subject to misinterpretation at best and, at worst, may not be borne out by the facts. I do not think the Government security dealers are angels, but I do not think they are devils, either -- just ordinary American business men.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'Allan Sproul', with a stylized, sweeping flourish at the end.

Allan Sproul.

April 1, 1947.

Dear Allan:

Your commentary on my testimony is appreciated. It also excites my curiosity as to what you do not agree with in the statement and whether it was in the way I stated my views or a matter of substance. In any case, having, as you know, a high regard for your capacities and powers of persuasion, I felt that if we could isolate the points of difference you probably could persuade me to come around to your viewpoint if I had the benefit of your reasons therefor.

I admit it might have been better, certainly in the record, to have left out the reference to the security dealers' opposition, or at least to have made clear that not all of the dealers were openly opposed. At Bob Rouse's suggestion, I sent a letter to Mr. Morris as the head of the dealers' group, and I enclose a copy.

It was our understanding at the time that Senator Glass put the prohibition on direct purchases in the 1935 Act at the instance of the security dealers. Certainly the Board did not want it. Burgess put up as stiff a fight as he could when he came down here with the bankers, and I am sure that in doing so he was not going contrary to the wishes of either the bank or the Discount Corporation.

I agree, of course, that the dealers are neither devils nor angels, but they do not hesitate to criticize the Board or me, by name, when it suits them to do so, and I think I am entitled as a public servant to give my side of it as I see it from the public's standpoint, just as I expect them to fight for their interests as they see them.

Sincerely yours,

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York 45, New York.

Enclosure

ET:b

**FEDERAL RESERVE BANK
OF NEW YORK**

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NEW YORK ~~7~~, N.Y.
April 3, 1947.

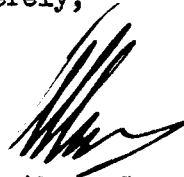
Honorable M. S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Marriner:

Answering your letter of April 1st, I think the principal matter of substance on which I might disagree with you in the area covered by your testimony before the House Committee on Banking and Currency would be with respect to the Board's proposals for additional powers to cope with our monetary and credit problems. I am not as convinced as I think you are that these powers would be the answer to our needs even if we could obtain them. For the rest, I agreed with you in substance. And I wish that I could agree with you that my capacities and powers of persuasion are such as would probably enable me to bring you around to my point of view on matters where we differ at the outset. I am often depressed on this score.

Your letter to the head of the Government security dealers' group, copy of which you enclosed, should reduce the temperature there. So long as you are on sound ground, I should never expect or want you to pull your punches when speaking in the public interest.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'Allan Sproul', with a stylized, cursive script.

Allan Sproul.

PERSONAL AND CONFIDENTIAL

April 3, 1947.

Dear Allan:

You will be interested in taking note of the enclosed correspondence which originated when Randolph Burgess wrote a letter to Chairman Wolcott that, if it had gone unanswered, would no doubt have left a very erroneous impression in his mind. I am sending copies also to Senator Tobey; to Ned Brown as head of the Advisory Council which endorsed the legislation; to Bob Fleming who headed the bankers' advisory committee which also supported the proposal; to Hal Stonier of the American Bankers Association, as well as to Under Secretary Wiggins because of the Treasury's interest in the matter.

Senator Tobey advised me by telephone this morning that he felt the bill was in some jeopardy because of the strong opposition of Senator Taft. Needless to say, the loss of the bill now would be a serious reflection on the prestige of the entire Federal Reserve System. I have no way of accounting for the origin of Taft's attitude, but I felt I should let you know, in strict confidence, that Senator Tobey expressed to me the opinion that it stemmed from Burgess. That is a very grave accusation to make in the light of Burgess' commitments as a member of the Advisory Council and also one of the advisory group of bankers, and I certainly would not want that statement repeated as coming from me, in any case, unless I had positive information. Anyway, I thought you ought to be informed of the situation.

Sincerely yours,

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York 45, New York.

Enclosures

ET:b

**FEDERAL RESERVE BANK
OF NEW YORK**

NEW YORK ⁴⁵~~7~~, N.Y.

April 8, 1947.

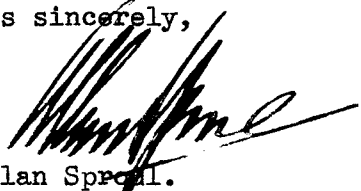
PERSONAL AND CONFIDENTIAL

Dear Marriner:

Randy Burgess sent me a copy of his letter to Congressman Wolcott, which is the subject of your note of April 3 and its enclosures. I did not pay much attention to it as it seemed to me, as you say, to deal with minor qualifications of the House Committee's report. I attributed it to the urge of an old fireman to try to tell how they used to put out fires. Incidentally, I seem to be one of the select company of those who do not know why we were deprived of the authority to buy direct in the Banking Act of 1935. I had thought it was because Senator Glass got it into his head that the authority was dangerous.

I should be surprised if Randy Burgess has done anything to stir up Senator Taft's opposition to the bill since its approval by the Federal Advisory Council and by the A. B. A. advisory group. Certainly I should want more than Senator Tobey's opinion before believing such a story. I will not say anything about it, of course, because it would immediately be attributed to you. If there is need to do anything with respect to Senator Taft, however, I am quite ready to go to bat.

Yours sincerely,


Allan Sprague.

Mr. Marriner S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

W. RANDOLPH BURGESS
55 Wall Street
New York 15, N. Y.

March 27, 1947.

Dear Marriner:

I enclose a copy of a letter I have just written to Congressman Wolcott about his Committee report on the bill to extend the authority of the Treasury to sell directly to the Reserve Banks. I think somehow this record ought to be straightened out, and perhaps you could get it done in the Senate report or somewhere else.

Sincerely yours,

(Signed) Randolph

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

March 27, 1947.

Dear Jess:

This may be locking the door after the horse is stolen, but I have just had an opportunity to read the Committee report dated March 10 accompanying H.R. 2413. In general it tells the story in satisfactory shape, but there are two statements in the report, which I assume was prepared on the basis of data submitted by the Federal Reserve people, which are not accurate.

The first statement is on the first page--"The Federal Reserve System had used this direct purchase authority without any limitation as to amount of holdings from the time of its creation in 1913 to 1935, etc." This statement is misleading. There was a limitation on any purchase of Government securities which lay in the fact that securities purchased could not be used as collateral for Federal Reserve notes. This provision of the law restricted the amount of securities that the Federal Reserve System could buy in World War I, and it was especially a limiting factor in the Autumn of 1931, when the System was losing gold. The Glass Bill early in 1932 corrected this situation and made possible the billion dollar open market operation of the Spring and Summer of 1932. You will remember that this bill was extended from time to time, and that I appeared before your Committee when the power to pledge Governments as collateral for notes was made permanent.

March 27, 1947

One reason for the prohibition of direct purchases in the Banking Act of 1935 was that the Glass Bill of 1932 had thrown the door wide open for the purchase of Government securities. The two things went together.

The other statement which is not wholly true is on the next page--"To obtain funds to meet such temporary requirements without direct purchase by the Federal Reserve Banks, the Treasury would be obliged to arrange for sale of securities to dealers in the market, with the assurance that the Federal Reserve Banks would repurchase the securities; and this not only would be inconvenient and troublesome but would increase the expenses without serving any useful purpose." While I was in the Federal Reserve System I had charge of the operations under the Banking Act of 1935, and they are not correctly described by the foregoing sentence. What we did was to sell special Treasury certificates to some of the larger member banks, which was always simple to do by telephone in a few minutes, for at times when the Treasury needed the overdraft the banks were by the nature of the circumstances in possession of extra funds. There was no expense involved.

I am not opposed to this legislation under the present circumstances, with the three year limit that your Committee has placed on it, but the record ought to be correct, as I know you want it to be.

Sincerely yours,

Honorable Jesse P. Wolcott
House of Representatives
Washington, D. C.