

March 27, 1947.

Mr. R. C. Morris, Vice President,
Bankers Trust Company,
16 Wall Street,
New York City.

Dear Mr. Morris:

May I address this letter to you in your capacity as Chairman of the Government Security Dealers group in order to correct an erroneous impression which Mr. Rouse advises me was created because of the reference in my recent testimony before the House Banking and Currency Committee to opposition among dealers in Government securities to H.R. 2413, the bill for the so-called direct purchase authority.

I recognize and appreciate the fact that you and most of the others in the group have not openly opposed this necessary legislation. In fairness to you and the other dealers who have taken this attitude towards the legislation, I wanted to say to you and through you to them that I wish to correct any contrary impression which the passing reference in the course of the questions and answers may have created. If I had had an adequate opportunity to correct the transcript, I would have tried to make this clear. I had in mind that in the Banking Act of 1935 this authority was taken away from the Reserve System primarily at the instance of some of the dealers and that H.R. 2413 was very vigorously opposed at first in one quarter representing a large firm dealing in Government securities.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b

SIXTEEN WALL STREET
NEW YORK

April 7, 1947

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

Dear Mr. Eccles:

Thank you for your letter of March 27.
I was deeply disturbed to read your testimony as
reported in the official record. To my knowledge,
no member of our group has opposed H.R. 2413, openly
or otherwise. Your letter will help clear the re-
cord.

Would you be good enough to send a copy
of your letter to the Chairman of the House Banking
and Currency Committee.

Sincerely yours,



R. C. Morris
Chairman, Government
Security Dealer Group

RCM:AB

Supper for -

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

April 3, 1947.

The Honorable Jesse P. Wolcott,
Chairman, Committee on Banking
and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Wolcott:

Randolph Burgess has sent me a copy of his letter of March 27 addressed to you with respect to two statements in the Banking and Currency Committee Report on H.R. 2413. Speaking on the basis of his years of experience with the Reserve System, he indicates some qualifications that might be made to the two statements mentioned. In my opinion, however, these are very minor qualifications which do not contradict the essential truth of the Committee's statements.

It is true, of course, that inability to pledge Government securities as collateral for Federal Reserve notes prior to 1932 served on some critical occasions as a limitation on the total amount of Government securities that the Reserve Banks could purchase. It might also be mentioned that the reserve ratio required to be maintained by the Federal Reserve Banks now serves as a limitation. Such limitations, however, apply to total holdings of the Reserve Banks, and not simply to amounts purchased directly from the Treasury. Accordingly, I think this point raised by Mr. Burgess is irrelevant to the issue presented by H.R. 2413, which deals solely with authorization for the Reserve System to purchase a limited amount of Government securities directly from the Treasury and has nothing to do with the question of the total amounts of securities which the System may purchase, whether in the open market or directly.

I was surprised by Mr. Burgess' statement that "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." That is an explanation for the prohibition which I had not previously heard. It is a very poor reason, at best. I think the real reasons for writing the prohibition into the Act were far more practical and can be traced to certain Government bond dealers who quite naturally had their eyes on business that might be lost to them if direct purchasing were permitted.

April 3, 1947

Mr. Burgess' second point seems to me even more remote from the questions raised by H.R. 2413. What he is saying in effect is that instead of having the Federal Reserve Banks carry the Treasury over some of these tax periods, he would call up some of the big banks and get them to perform the service. I, personally, have an instinctive dislike of a procedure which requires the Government of the United States to go, so to speak with hat in hand, to private banks to ask for this kind of accommodation. At the time of which Mr. Burgess speaks, these banks had large amounts of excess reserves and hence were in a position to be accommodating. While New York City banks are likely to obtain additional reserve funds in a period when the Treasury would need a temporary advance, it is not at all certain that they would always have excess reserves and be in a position to help out the Government. In any case, this sort of a procedure was a means of getting around the prohibition. It serves to emphasize again the desirability of removing that prohibition.

While Mr. Burgess states that he is not opposed to this legislation under present circumstances, it is my understanding that he preferred not to have the authority extended but took the position that if it were extended, it should be limited to 2 billion dollars under a 3-year extension. It was certainly my personal impression in the meeting I attended when he was present that he was not favorable to the proposal.

Possibly this letter may be raking over dead coals, but I did not wish you to gain an impression, as you well might from Mr. Burgess' letter, that the record misrepresented the facts.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

April 3, 1947.

Dear Randy:

This is to thank you for your letter of March 27 enclosing a copy of the letter which you sent to Chairman Wolcott. I enclose a copy of the letter which I sent to him in order to give my views on the points you raise.

Needless to say, I do not think that the points you raise are material ones. I would not have troubled Jesse Wolcott with this matter except for the fact that he might well have gained the impression from your letter to him that "the Federal Reserve people" had deceived him.

Sincerely yours,

(Signed) M. S. Eccles

Dr. W. Randolph Burgess,
55 Wall Street,
New York 15, New York.

Enclosure

A handwritten signature in dark ink, appearing to be 'M. S. Eccles', is located in the bottom right corner of the page.

April 3, 1947.

Dear Senator Tobey:

You may be interested in noting the enclosed correspondence which originated with the letter from Randolph Burgess to Mr. Wolcott, which, if it had gone unanswered, would, I am sure, have created a very erroneous impression in his mind. I have sent copies to the presidents of the Federal Reserve Banks; to Ned Brown as head of the Federal Advisory Council which endorsed the bill; to Bob Fleming who headed the advisory committee of bankers which also supported the measure; to Under Secretary Wiggins in view of the Treasury's interest in the matter, and to Hal Stonier of the American Bankers Association.

It would be a decided reflection, I feel, on the prestige not merely of the Reserve System but of the American Bankers Association and the prominent bankers represented both in the Advisory Council and the ABA Committee if Senator Taft's judgment is to be substituted for that of the bankers who have approved the measure, to say nothing of the House of Representatives and your own Committee.

Sincerely yours,

M. S. Eccles,
Chairman.

The Honorable Charles W. Tobey,
Chairman, Committee on Banking
and Currency,
United States Senate,
Washington 25, D. C.

Enclosures

ET:b

April 3, 1947.

Dear Ned:

Inasmuch as the Federal Advisory Council is interested in and endorsed the so-called direct purchase bill, I thought you would be interested in seeing the enclosed correspondence resulting from Randolph Burgess' letter to Congressman Wolcott which, if it had gone unanswered, might have created an erroneous impression in his mind.

As you know, the bill has passed the House and has been reported unanimously by the Senate Banking and Currency Committee. Nevertheless, it appears to be in serious danger because of opposition by Senator Taft. It would be extremely unfortunate from the standpoint of the prestige of the Federal Reserve System if this measure should now be lost after it has had the support of all of the presidents as well as that of the Advisory Council. While I am at a loss to account for the origin of Senator Taft's opposition, it appears to be very strong.

I am also sending a copy of this correspondence to Bob Fleming, who headed the advisory committee of bankers which also endorsed the proposal, as well as to Senator Tobey, Under Secretary Wiggins, and Hal Stonier of the American Bankers Association.

Sincerely yours,

Mr. Edward E. Brown, President,
Federal Advisory Council,
The First National Bank of Chicago,
Chicago, Illinois.

Enclosures

ET:b

April 4, 1947.

Dear Hal:

It occurred to me that you might be interested in taking note of the enclosed correspondence which originated with Randolph Burgess' letter to Congressman Wolcott. Randy sent me a copy at the same time and I felt that I should make a reply to correct any erroneous impression that might be created in Mr. Wolcott's mind.

I have sent copies of the correspondence also to Under Secretary Wiggins because of the Treasury's interest in the matter, to Bob Fleming who headed the advisory group of bankers which approved the legislation, and to Ned Brown as head of the Federal Advisory Council which also approved.

Sincerely yours,

Mr. Harold Stonier,
Executive Manager,
American Bankers Association,
12 East 36th Street,
New York 16, New York.

Enclosures

ET:b

April 9, 1947.

Dear Mr. Wolcott:

While the matter is now over the dam, I thought you might possibly want to see the copy of a letter I wrote to Mr. E. C. Morris, who is Chairman of the Government Security Dealer Group in New York, when I learned that the feathers of some of the Government bond dealers were ruffled because in my testimony I had referred to opposition originating in that quarter to H.R. 2413.

I understand from Mr. Morris that my letter helped to set matters straight on this point.

Sincerely yours,

M. S. Eccles,
Chairman.

The Honorable Jesse P. Wolcott,
Chairman, Committee on Banking
and Currency,
House of Representatives,
Washington 25, D. C.

Enclosure

 ET:b

April 9, 1947.

Mr. Robert C. Hill,
Clerk, Committee on
Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Hill:

With reference to our telephone conversation today, I am sending you a copy of the letter that Randolph Burgess sent to Mr. Wolcott and the one which I sent to Mr. Wolcott in answer to Burgess.

I forwarded copies of this correspondence to Senator Tobey a few days ago but possibly it has been mislaid.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosures

ET:b
ET

W. R. Burgess

W. RANDOLPH BURGESS
55 WALL STREET
NEW YORK 15, N. Y.

April 9, 1947

Dear Marriner:

Yours of April 3 has been on my desk for several days, and I have delayed answering because I am honestly a bit puzzled.

You and I just naturally can argue things of this sort till Doomsday, and there is no particular point in doing so in this case, particularly by letter, for as far as the House is concerned the job is finished, and the record made, though I know you must be having your boys check carefully statements which sometimes don't get recorded straight and in any event are made on the spur of the moment.

The basic thought that I do have is this: One of the things your friends like about you is your frankness and willingness to speak your mind no matter where the chips fall. Some difficulties do arise, however, when you appear before a Congressional committee, not just as Marriner Eccles, but as Chairman of the Federal Reserve Board. The question I want to raise is whether on these occasions the record can't be more precisely checked for evidence and accuracy. For example, in the testimony and in your letter you make some pretty serious accusations about Government security dealers without substantiating evidence. That is all right as a hunch to throw out in the air at informal discussions, but for the formal record I wonder if you really want it that way.

I am glad to see you taking a poke at insurance of export credits.

With best regards,

Sincerely yours,

W. R. Burgess

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

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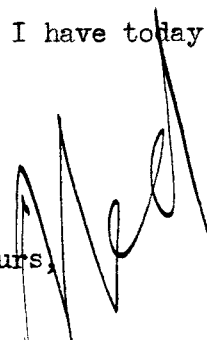
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RENO ODLIN, DISTRICT NO. 12

April 10, 1947

Dear Marriner:

Here is a copy of the letter I have today
written Bob Taft.

Sincerely yours,



The Hon. Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington.

encl

April 10, 1947

My dear Senator Taft:

I am told that when the Bill, which passed the House extending for three years the power of the Treasury to borrow directly from the Federal Reserve Banks up to \$5,000,000,000, and which was reported favorably by the Senate Banking and Currency Committee, came up on the floor of the Senate you questioned the desirability of extending this power.

The Bill, when it was pending in the House, was considered by the Federal Advisory Council, of which I am President, and the Council debated it quite extensively. It was the opinion of the Council that the Bill should be passed with a limitation of three years on the power, which limitation was put in by the House.

The members of the Council, as you know, are elected by the Federal Reserve Banks to represent the banking point of view in the Federal Reserve System. The members of the Council felt it was of great importance to the soundness of the whole banking system, and as an anti-inflation measure, that Treasury balances be reduced to a minimum, and thus bring about a corresponding reduction in the Government debt held by the commercial banks. The Treasury had expressed the view that with large maturities of indebtedness coming due at frequent intervals and having to be refunded, it would, unless the present power of direct borrowing was extended, have to keep very large cash balances on hand.

While the Council felt that the power to borrow directly had not been abused in the past, it did feel that the power should be extended only for a limited time so that Congress could review the situation before the end of three years, to determine whether there had been any abuse of power, and also to determine, in the light of the then situation, whether the power should be further continued or be permitted to lapse.

I have discussed the matter with many bankers and I am sure that the great majority of banking opinion in the country supports the Bill extending the power of direct borrowing with the three year limitation now in the Bill.

Page 2.

April 10, 1947

I am writing to let you know that the matter was considered and debated in the Federal Advisory Council, and with the hope that on consideration you will not oppose the passage of the Bill in view of the fact that otherwise the power will lapse. I think the result of lapsing would be an increase in Treasury balances and consequently a larger amount of Government paper in the commercial banks than would otherwise be the case.

Sincerely yours,

The Honorable Robert A. Taft
Senate Office Building
Washington.

April 15, 1947.

Dear Ned:

Thank you for your letter of April 10 enclosing the copy of your letter to Bob Taft on the direct purchase authority.

It is a first-rate letter and should have a beneficial effect on the Senator.

Best regards.

Sincerely yours,

Mr. Edward E. Brown, President,
Federal Advisory Council,
c/o The First National Bank
of Chicago,
P. O. Box A,
Chicago 90, Illinois.

ET:b