

April 4, 1947.

Dear Bob:

As you headed the advisory group of bankers which endorsed the so-called direct purchase bill, I thought you might be interested in seeing the enclosed correspondence which originated with Randolph Burgess' letter to Chairman Wolcott. Randy sent me a copy at the same time. I felt that it called for an answer to remove any erroneous impressions that might otherwise be created. I have sent copies to Ned Brown in view of the fact that the Federal Advisory Council also endorsed the legislation, and to Under Secretary Wiggins because of the Treasury's interest.

As you know, the bill has passed the House and been reported unanimously from the Senate Banking and Currency Committee, but Bob Taft evidently is against it. I talked to him over the telephone the other day and have hopes that he will withdraw or moderate his view of it, which I feel is based on entirely unfounded fears.

Sincerely yours,

Mr. Robert V. Fleming, President,  
The Riggs National Bank,  
Washington 13, D. C.

Enclosures

 ET:b

# The Riggs National Bank

ROBERT V. FLEMING  
PRESIDENT AND CHAIRMAN OF THE BOARD

of  
Washington, D. C.

POSTAL ZONE 13

CHARLES C. GLOVER, JR.  
VICE CHAIRMAN OF THE BOARD

April 9, 1947

IN REPLYING PLEASE QUOTE INITIALS

RVF:RS

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

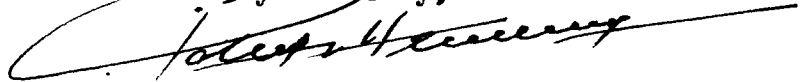
Dear Marriner:

Thank you so much for your letter of April 4, enclosing correspondence which has passed between you, Randolph Burgess, and The Honorable Jesse P. Wolcott relative to Burgess' letter to Mr. Wolcott under date of March 27.

I am very hopeful that Senator Taft will withdraw his objections as I feel it is desirable that the power be granted the Treasury to borrow five billion dollars from the Federal Reserve System as provided in the House Bill. If I can be of any assistance to you with respect to Senator Taft in view of the fact that I am Chairman of the Government Borrowing Committee of the American Bankers Association, please let me know.

I did not send a letter to the Senate Banking and Currency Committee because Under Secretary Wiggins felt it was unnecessary for me to do so in view of the prompt action of that Committee in approving the House Bill without a hearing; however, I stand ready to carry out the recommendations of the American Bankers Association Committee on Government Borrowing.

Yours very sincerely,



*Arrived*

# The Riggs National Bank

ROBERT V. FLEMING  
PRESIDENT AND CHAIRMAN OF THE BOARD

of  
Washington, D. C.

CHARLES C. GLOVER, JR.  
VICE CHAIRMAN OF THE BOARD

POSTAL ZONE 13

April 10, 1947

IN REPLYING PLEASE QUOTE INITIALS  
RVF:EB

PERSONAL

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

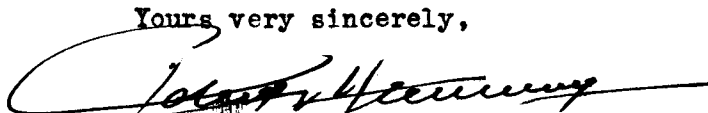
Dear Marriner:

Referring to our telephone conversation I am enclosing copy of the communication I have addressed to the Honorable Robert A. Taft with respect to the power of the Treasury to borrow \$5,000,000,000 direct from the Federal Reserve Banks.

You will observe that I have tied the basis of my communication to him to the article appearing in the "American Banker" of April 9th, so that neither the Treasury or the Federal Reserve is involved in the reasons why I addressed a communication to him. I have also cleared this communication with Lee Wiggins, Under-Secretary of the Treasury, who is very happy to have me write this communication, I having advised him of our telephone conversation.

Please let me know if there is any further assistance I can render.

Yours very sincerely,



Chairman,  
Committee on Government Borrowing  
American Bankers Association

Enclosure

## Extra Carbon Copy for the "PENDING" File.

To Stenographer:

Hand this copy to Mr. .... on .....

April 10, 1947

RVF:EB

The Honorable Robert A. Taft,  
Senate Office Building,  
Washington 25, D. C.

My dear Senator Taft:

From the columns of the "American Banker" I observe that they report some question in your mind as to the desirability of the passage of the legislation giving authority to the Treasury of the United States to borrow directly from the Federal Reserve Banks sum or sums not in excess of \$5,000,000,000.

I am taking the liberty of writing you therefore to advise you that the Committee on Government Borrowing of the American Bankers Association, of which I have the honor to be Chairman, considered this question very thoroughly at the meeting our Committee held with the Secretary of the Treasury and his staff on January 23rd and 24th, 1947. Our Committee thoroughly reviewed this whole question, examined the uses which has been made of this power by the Treasury and found that there had been no misuse of this power; in fact the power had been used mainly over tax-paying periods. The Committee thought however that in extending this power it should be for a limited period of years in order that the Congress of the United States will have the opportunity to review the uses that had been made of the power rather than to make a permanent provision of law. The Committee also felt, in view of the fact that we had urged the Treasury first to balance its budget, secondly to make sizable reductions in the public debt and then also to make tax reductions that it was rather desirable for the Treasury to have this power for a temporary period of time in view of the size of our debt and the state of world conditions and furthermore that it would be conducive to their reducing the working balance of the Treasury to the lowest figure possible, which would effect further savings in the debt service charge.

At the time this matter was being considered by the Banking and Currency Committee of the House of Representatives, in accordance with the action taken by this Committee, I addressed a communication to the Honorable Jesse P. Wolcott, a copy of which I am enclosing, which I believe states our position. I am also enclosing a list of the membership of the Committee, from which you will see that this matter was considered by a Committee consisting of leading bankers in this country and I am also attaching a schedule of the uses made of this power since March, 1942.

## Extra Carbon Copy for the "PENDING" File.

To Stenographer:

Hand this copy to Mr. .... on .....

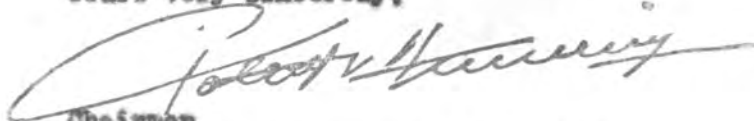
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The Honorable Robert A. Taft

April 10, 1947

which was supplied to us at our request by the Board of Governors of the Federal Reserve System. It seemed to me in view of the fact that the House has passed this Bill and the Senate Banking and Currency Committee has reported it out favorably that it is incumbent upon me to advise you of the position of the Committee of the American Bankers Association, whose actions have received the approval of the Interim Committee of the American Bankers Association, which Committee has the authority to act between meetings of the Executive Council of the Association or Association Meetings.

Yours very sincerely,



Chairman  
Committee on Government Borrowing  
American Bankers Association

Enclosures.

April 11, 1947.

Dear Bob:

Thank you for sending me the copy of your letter to Senator Taft. It should be helpful and I greatly appreciate, as I know all of the members of the Board do, your taking the trouble to assist in getting this legislation through the Senate.

With best regards,

Sincerely yours,

Mr. Robert V. Fleming, President,  
The Riggs National Bank,  
Washington 13, D. C.

ET:b

## FEDERAL RESERVE BANK OF NEW YORK

45  
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April 10, 1947.

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

Dear Senator Taft:

Harriner Eccles has told me that you have reservations about the bill (H.R. 2413) which would renew the authority of the Federal Reserve Banks to buy up to \$5 billion of Government securities direct from the Treasury until June 1, 1950. I am writing you about it because I think it would be too bad if this legislation were too long delayed, or were defeated.

I am concerned, as I know you are, that there should be no direct and continuing and unlimited financing of Government deficits by the central banks. That is one of the classic ways of compounding inflationary pressures. I am also aware of the argument that every piece of Government financing should be subjected to the "test of the market", even though the broader question of direct, continuing, and unlimited borrowing from the central banks is not involved.

Our protection does not lie, however, in a complete prohibition of direct purchase of Government securities by the central banks from the Treasury. In that way we may get the form but not the substance. The financing of the war demonstrated, if demonstration were needed, that Federal Reserve funds can be used to buy Government securities in the market, and that this infusion of Reserve funds into the banking system enables the banks and others to buy Government securities issued by the Treasury, thus accomplishing indirectly what might be prohibited directly. It could be said, of course, that this does require each issue of Government securities to meet the "test of the market", but this is an illusion if the market determines its response on the basis of funds supplied by the Reserve Banks or of assurance that the Federal Reserve Banks will support the issue.

It seems to me, therefore, that our protection must lie, not in prohibition, but in wise and prudent exercise of our powers of credit control by those charged with their administration, and in alertness on the part of the Congress and the public, particularly the financial community, to detect deviations from such a course. Experience during the first twenty years of the Federal Reserve System, when there was no restriction on purchase of Government securities by Reserve Banks direct from the Treasury, except that imposed on their total purchases of Government securities by reason of the fact that such securities could not be pledged as collateral for Federal Reserve note issues, indicates that reliance on such protection is not misplaced. This experience has been confirmed in the years since 1942 when the power of the Federal Reserve Banks to buy Government securities direct from the Treasury was restored, limited as to amount and duration.

4/10/47.

The power has always been used, I think, for the principal purpose for which it was intended -- that is, as a mechanical aid in evening out Treasury withdrawals of funds from the money market and payments of funds into the market, usually during the period of quarterly interest and tax payments. A possible further and remotely conceivable use would be if, at a time of sudden national emergency, the Treasury had a large maturity which could better be refunded in a matter of a few days or weeks rather than on the day of maturity when all markets were demoralized. These uses seem to me to be appropriate and desirable and to lead to sound practice in the management of the public debt. The alternatives are that the Treasury carry larger minimum balances, which involves a not inconsiderable and continuing budgetary burden, or that temporary or emergency situations be met by special arrangements with private banks (which would not always be possible) to meet situations which have been largely met, in the past, by the direct sale of Government securities (for short periods) to the Federal Reserve Banks. The first alternative seems to me to be wasteful of public funds, and the second to strain for the form without achieving the substance unless some objective of credit control is also served.

In conclusion, let me say that I do not think this proposed legislation carries the seeds of either unsound monetary policies or loose fiscal policies. Otherwise, I would join in opposition to it.

Yours sincerely,

ALLAN SPROUL  
Allan Sproul, Chairman,  
Conference of Presidents of  
Federal Reserve Banks.

AS:RGR:HVB/BAV