

February 13, 1947.

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

Dear Mr. Chairman:

Attached is an explanatory letter and copy of the bill covering the two legislative matters that we discussed, among others, on yesterday.

The bill, as you know, covers two points: first, extension of the authority of Federal Reserve Banks to make direct purchases from the Treasury up to 5 billion dollars; and second, lifting the limit on amounts that may be expended for Federal Reserve Bank branch buildings.

As I understand it, you desire to introduce this promptly and to have hearings around the first of next month. Within the next two or three weeks, I shall also send you a copy of a holding company bill and one covering regulation of consumer credit.

I was certainly glad of the opportunity to have an extended discussion with you of these and related matters for which you and the Committee bear a responsibility.

Sincerely yours,

M. S. Eccles,  
Chairman.

Attachments

ET:b

February 13, 1947.

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

Dear Senator Tobey:

I am attaching an identical letter, together with a bill, which I am also sending to Chairman Wolcott of the House Banking and Currency Committee after having a talk with him yesterday.

As you will note, the bill has the merit of brevity. It provides for extension of the authority expiring March 31, 1947, for the Reserve Banks to purchase Government securities directly from the Treasury and, secondly, for removing the restriction on what may be expended for Federal Reserve Bank branch buildings.

The Treasury is in full accord with the Board, as are most of the banking leaders, on the necessity for the extension of this direct purchase authority. I would not expect any controversy over either point in this bill, and would greatly appreciate it if you would introduce it in the Senate at your earliest convenience if that is agreeable with you.

If you have any question about it I would, of course, be glad to discuss it with you in person or over the telephone whenever you wish.

Sincerely yours,

M. S. Eccles,  
Chairman.

Attachments

ET:b

*Miss Boston* *Job*  
This is a copy to  
be returned as soon  
as possible, and  
showing the date  
of mailing.

*(Identical letter  
to Len Foley)*

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

FEB 13 1947

Dear Mr. Chairman:

There is enclosed herewith a draft of a bill "To amend the Federal Reserve Act, and for other purposes", which the Board recommends be enacted into law.

The purposes of the proposed legislation are (1) to make permanent the existing temporary authority of the Federal Reserve Banks to purchase Government securities directly from the Government, subject to a \$5,000,000,000 limitation; and (2) to repeal the limitation upon the amount which may be expended in the erection of any Federal Reserve Bank branch building.

Direct Purchase of Government Securities. - The existing authority for the purchase of Government securities by the Federal Reserve Banks directly from the Government, subject to the limitation that the amount of securities held by the Federal Reserve Banks which have been purchased in this manner shall not exceed \$5,000,000,000, is contained in a proviso which was added to section 14(b) of the Federal Reserve Act by Title IV of the Second War Powers Act, and will expire on March 31, 1947, or such earlier date as may be designated by the Congress or the President. The Board believes that this authority should be made permanent.

The direct purchase of securities provides the Treasury with a source to which it may turn to obtain funds in a substantial amount on little notice to meet temporary situations and contingencies. With such an emergency source of funds, it is possible for the Treasury to operate with a smaller cash balance than might otherwise be necessary, thus resulting in a saving of interest. To obtain funds to meet such temporary requirements without direct purchases by the Federal Reserve Banks, the Treasury would be obliged to arrange for the 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 also would increase the expense without serving any useful purpose. Furthermore, direct buying provides a flexible method of easing the money market in periods of heavy drain, as, for example, around income

tax dates. By borrowing funds from the Federal Reserve Banks and expending them prior to tax dates, the Treasury can put the funds into the market; and, as the taxes are received, such special borrowings are reduced and soon retired.

This power is one generally possessed by central banks; and, until 1935, there was no limitation upon direct purchases by the Federal Reserve Banks. Under both the existing law and that prior to 1935, the authority of the Federal Reserve Banks to purchase securities directly from the Government has been used only occasionally and for brief periods, ordinarily around tax dates. While not used extensively, direct buying has proven to be a useful and convenient mechanism to facilitate Treasury operations and to effect temporary adjustments in the money market. It in no wise results in an increase in the public debt; instead, its effect, as indicated above, is to eliminate needless Government expense.

The Treasury Department has advised the Board that it concurs in the Board's position that the existing authority should be made permanent.

Federal Reserve Bank Branch Buildings. - The ninth paragraph of section 10 of the Federal Reserve Act, as added by the Act of June 3, 1922, and amended by the Act of February 6, 1923, provides as follows:

"No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character, or to authorize the erection of any such building, if the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures, is in excess of \$250,000: Provided, That nothing herein shall apply to any building under construction prior to June 3, 1922."

The Board believes that it is essential that this limitation be removed in order that the Federal Reserve Banks may construct branch building facilities which are adequate for the increased volume of work of the branches. The construction of such buildings does not involve the use of any Government funds or appropriated moneys since the funds of the Federal Reserve Banks are used for this purpose.

Since the adoption of the statutory limitation, and particularly during the war, the operations of the 24 branches of the Federal Reserve Banks have greatly increased, and there has been a corresponding increase in the space required. As one indication of this growth, there now are about 6,200 employees at the branches, as compared with about 2,600 when the limitation was adopted. The largest single factor in this expansion has been a tremendous increase in the volume of fiscal agency operations performed by the Federal Reserve Banks for the Treasury Department and other Government departments and agencies; and there also have been substantial

increases in currency and coin transactions, check collections, and other operations of the Federal Reserve Banks. A further factor in the growth of the branches has been the enlargement of the scope of their operations to such an extent that, with few exceptions, the branches now offer the same services as are available at the head offices.

To meet their minimum space requirements, it has been necessary for all but two of the branches to rent space outside of their regular quarters. Such arrangements are not satisfactory. Operations obviously could be carried on more efficiently and economically under one roof than in scattered quarters. Moreover, vault facilities are so inadequate that it is becoming difficult to provide the necessary protection for the large quantities of money, securities, and other valuables handled by the branches. While operations have declined somewhat from their wartime peak, and there perhaps will be some further decline, it is apparent that the work of the branches, including fiscal agency work in connection with the servicing of the public debt, will continue indefinitely on a much larger scale than prior to the war. It therefore appears that most of the branch buildings have become permanently inadequate.

Consequently, the Federal Reserve Banks believe that it would be a matter of economy to enlarge their branch building facilities at the proper time; but such a program cannot be carried out under the existing limitation on the cost of the buildings. In this connection, it is pertinent to note that the limitation is much more restrictive than when it was enacted, both because of the growth of the branches and the increase in construction costs which has occurred since 1923.

Congress has vested in the Board, as an agency of the Government, general supervision over the Federal Reserve Banks. In the exercise of this supervision, it is the Board's practice to consider in advance all options for the purchase of real estate and all plans and specifications for buildings and vaults for the Federal Reserve Banks and their branches, and no construction is undertaken without express approval by the Board. In the circumstances, the Board believes that the statutory limitation serves no useful purpose.

The Board, of course, would not authorize any substantial construction, except in case of emergency, until there is an adequate supply of labor and materials. The statutory limitation, however, should be eliminated now. Until this is done, the Federal Reserve Banks, being uncertain as to what eventually may be permissible, cannot make effective preparations for the construction to be undertaken at an appropriate time.

The Board believes that the matters discussed above warrant early consideration by your Committee and the Congress and it earnestly recommends the enactment of legislation along the lines of the proposed bill enclosed herewith. We will, of course, welcome an opportunity to appear before your Committee to discuss these matters in further detail and to furnish any additional information which may be desired.

Sincerely yours,

(Signed) *Merriner S. Eccles*  
M. S. Eccles,  
Chairman.

Enclosure

  
UCB:sad

1-10-47

A B I L L

To amend the Federal Reserve Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the proviso contained in subsection (b) of section 14 of the Federal Reserve Act, as amended (U. S. C., Title 12, section 355) is hereby amended to read as set forth below, without regard to the provisions of Title XV, section 1501, of the Second War Powers Act, 1942, approved March 27, 1942, as amended (U. S. C., Title 50, Appendix, section 645):

"Provided, That any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to principal and interest may be bought and sold without regard to maturities either in the open market or directly from or to the United States; but all such purchases and sales shall be made in accordance with the provisions of section 12A of this Act and the aggregate amount of such obligations acquired directly from the United States which is held at any one time by the twelve Federal Reserve banks shall not exceed \$5,000,000,000."

Sec. 2. The ninth paragraph of section 10 of the Federal Reserve Act, as added by the Act of June 3, 1922, and amended by the Act of February 6, 1923 (U. S. C., Title 12, section 522) prohibiting any Federal Reserve Bank from entering into any contract or contracts for the erection of any branch bank building or from authorizing the erection of any such building if the cost of the building proper is in excess of \$250,000, is hereby repealed.

JESSE P. WOLCOTT, MICH., CHAIRMAN

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## HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING AND CURRENCY

WASHINGTON

February 18, 1947

WILLIAM J. HALLAHAN, CLERK

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

Dear Mr. Eccles:

This is to confirm the telephonic notice given your office this date that this Committee will commence hearings on the proposed bill to amend the Federal Reserve Act in regard to continuing the authority of Federal Reserve Banks to make direct purchases from the Treasury up to five billion dollars and lifting the limitation on amounts that may be expended on Federal Reserve Bank branch buildings on Monday, March 3, 1947.

The Chairman, the Honorable Jesse P. Wolcott, requests your presence at that time to testify before the Committee on the proposed bill. The hearings will commence at 10:30 A.M. in the Committee Room.

Pursuant to the provisions of subsection (e) of section 133 of the Legislative Reorganization Act of 1946, it will be appreciated if you will furnish the Committee in advance thirty copies of your proposed statement. If your advance statements are received in this office by Thursday, February 27, 1947, it will be in sufficient time to make them available to the Committee members for their study and consideration.

Sincerely yours,

*William J. Hallahan*

Clerk

February 28, 1947.

Mr. William J. Hallahan, Clerk,  
Committee on Banking and Currency,  
House of Representatives,  
Washington, D. C.

Dear Mr. Hallahan:

In accordance with your letter to Chairman Eccles of February 18 and our phone conversation, I am sending you herewith 35 copies of a memorandum on H.R. 2233 on which Chairman Wolcott is holding hearings beginning at 10:30 A.M. on Monday, March 3.

I am not giving any copies out here and assume that it will not be made available to the press until after the hearing begins.

Sincerely yours,

Elliott Thurston,  
Assistant to the Chairman.

Enclosures 35

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