

March 20, 1947.

Honorable Brent Spence,
House of Representatives,
Washington, D. C.

Dear Mr. Spence:

Referring to our telephone conversation regarding the extension of the authority of the Federal Reserve Banks to purchase Government securities directly from the United States, as provided in H.R. 2413, I enclose herewith a memorandum which shows that it would not be possible to use the authority contained in the Thomas Amendment for this purpose. I am glad you called me with regard to this and I hope that this memorandum will adequately answer any questions that may arise in this connection.

Sincerely yours,

M. S. Eccles,
Chairman.

Enclosure

GEV:lim
3/19/47

THIS COPY FOR CHAIRMAN ECCLES

March 20, 1947.

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

Dear Mr. Wolcott:

In connection with the proposed extension of the authority of the Federal Reserve Banks to purchase Government securities directly from the United States, as provided in H.R. 2413, Congressman Spence telephoned me to say that questions were being raised as to why the authority contained in the Thomas Amendment of May 12, 1933, could not be used as a substitute for the authority provided in the bill. Knowing of your interest in the matter, I am enclosing herewith a copy of the memorandum which I am sending to Congressman Spence in this connection and which I believe adequately answers any questions in this regard.

Sincerely yours,

W. S. Eccles,
Chairman.

Enclosure

GEV:lim
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EFFECT OF THOMAS AMENDMENT ON NEED FOR EXTENDING
AUTHORITY OF FEDERAL RESERVE BANKS TO MAKE DIRECT
PURCHASES OF GOVERNMENT SECURITIES

There is now pending before the House of Representatives H.R. 2413, which would extend until July 1, 1950, the authority of the Federal Reserve Banks to purchase Government securities directly from the United States up to an aggregate amount at any one time of \$5,000,000,000 and the question has been raised as to whether the so-called Thomas Amendment of May 12, 1933, affects in any way the necessity for the extension of this authority.

The Thomas Amendment authorizes the President, upon making certain findings, to direct the Secretary of the Treasury to enter into agreements with the Federal Reserve System under which the Federal Reserve Banks will purchase directly and hold for an agreed period of time Treasury bills or other Government obligations in an aggregate sum of \$3,000,000,000. These provisions, however, do not in any way eliminate or reduce the necessity for the authority of the Federal Reserve Banks to purchase Government securities directly from the United States, which is contained in section 14 of the Federal Reserve Act and which would be extended by H.R. 2413.

The authority contained in the Thomas Amendment, even if legally still in effect, could not be used under present conditions. In order that the authority in the Thomas Amendment be used, it is required by the law that the President "upon investigation" find that one or more of the following conditions exist:

"(1) the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currency of any other government or governments in relation to the present standard value of gold, or

"(2) action under this section is necessary in order to regulate and maintain the parity of currency issues of the United States, or

"(3) an economic emergency requires an expansion of credit, or

"(4) an expansion of credit is necessary to secure by international agreement a stabilization at proper levels of the currencies of various governments".

It is obvious that the President could not properly make any one of these four findings at this time. The effect upon the foreign commerce of the United States of the depreciation in a foreign currency has no relation to the purchase of Government securities directly from the Treasury by the Federal Reserve Banks. Likewise, no action under the Thomas Amendment is necessary in order to maintain the parity of

THIS COPY FOR CHAIRMAN ECCLES

currency issues of the United States. Moreover, there is no economic emergency which requires an expansion of credit, nor is an expansion of credit necessary to secure stabilization of currencies by international agreement, especially in view of the Bretton Woods Agreements which were set up for this purpose. Under present conditions, therefore, it would be entirely inappropriate for the President to make any of the findings required by the Thomas Amendment, and it is most unlikely that he would be in a position to do so at any time in the near future.

The findings which the President would have to make in order to make the Thomas Amendment effective relate to conditions which might be present in a major emergency--one that is likely to continue for some time and that requires drastic actions to meet it. This was the case in 1933 when the Thomas Amendment was enacted. The authority in H.R. 2413 is intended to be used, whether in emergencies or otherwise, in order to meet temporary situations and contingencies.

For the reasons stated the Thomas Amendment would in no sense be an effective substitute for or supplement to the authority in the Federal Reserve Act which would be extended by H.R. 2413.

Furthermore, there is considerable doubt as a legal matter whether this provision of the Thomas Amendment of May 12, 1933, was not repealed by implication by the amendments to the Federal Reserve Act contained in the Banking Act of 1935 which required purchases by the Reserve Banks to be made only in the open market. This doubt was increased by the action of Congress in 1942 in making an exception to the requirement that all such purchases be in the open market, by permitting direct purchases up to \$5,000,000,000 for a limited period. In this connection, the Senate Committee Report in 1942 (No. 989, 77th Cong.) said that the limited authority for direct purchases "would revive powers formerly vested in Federal Reserve Banks so as to permit these banks to make direct purchases of Government securities." If it was necessary to pass legislation in 1942 in order to revive those powers, it is equally necessary now to pass legislation in order to make a further extension of those powers. As a matter of fact, this authority was extended on three previous occasions by the Acts of December 20, 1944, December 28, 1945, and June 29, 1946.

GBV:lim
3/19/47