BERNARD M. BARUCH
597 MADISON AVENUE
NEW YORK 22, N.Y.

March 11, 1947.

Mr. Marriner S. Eccles,
Federal Reserve System,
Washington, D.C.

My dear Mr. Eccles:

Is the enclosed bill satisfactory to you and has it any relation to the matter that you and I recommended to give the Federal Reserve Banks the right to lend up to $500,000,000 based upon the $136,000,000 gred that had been taken from them? Please read and return with such comments as you think necessary.

We are reaping the harvest of the improper financial controls of the war. I was very much opposed to the reduction of taxes, and of course any reduction now would be even more unwise until we know what our obligations are. The price of bread is not a bright harbinger of the future.

Sincerely yours,

B M Baruch

80TH CONGRESS
1ST SESSION

S. 408

IN THE SENATE OF THE UNITED STATES

JANUARY 27, 1947

Mr. TOBEY introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To repeal section 13b of the Federal Reserve Act, to amend section 13 of the said Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

REPEAL OF SECTION 13B OF THE FEDERAL RESERVE ACT

SECTION 1. Section 13b of the Federal Reserve Act is hereby repealed; but such repeal shall not affect the power of any Federal Reserve bank to carry out, or to protect its interest under, any agreement heretofore made in carrying on operations under that section. Within sixty days after the enactment of this Act, each Federal Reserve bank shall pay to the United States the aggregate amount which the Secretary of the Treasury has heretofore paid to such bank under the provisions of section 13b of the Federal Reserve Act, together with any net earnings thereon for the period from January 1, 1947, to the date on which such payment to the United States is made; and such payment shall constitute a full discharge of any obligation or liability of the Federal Reserve bank to the United States or to the Secretary of the Treasury arising out of subsection (e) of said section 13b or any agreement thereunder.

AMENDMENT OF SECTION 13 OF THE FEDERAL RESERVE ACT

SEC. 2. Section 13 of the Federal Reserve Act, as amended, is hereby further amended by adding at the end thereof the following new paragraph:

"Subject to such limitations, restrictions and regulations as the Board of Governors of the Federal Reserve System may prescribe, any Federal Reserve bank may guarantee any financing institution against loss of principal or interest on, or may make a commitment to purchase and thereafter purchase from a financing institution, any loan made to a business enterprise which has a maturity of not more than ten years. No Federal Reserve bank under this paragraph shall guarantee or make a commitment to purchase more than 90 per centum of the unpaid balance of any loan. The aggregate amount of guaranties and commitments of the Federal Reserve banks under this paragraph outstanding at any one time, together with the amount of loans acquired thereunder and held by them at the same time, shall not exceed the combined surplus of the Federal Reserve banks at such time; and the aggregate amount of such guaranties and commitments outstanding at any one time and loans held at the same time, which individually are in excess of $100,000, shall not exceed 50 per centum of the combined surplus of the Federal Reserve banks at such time."

80TH CONGRESS
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S. 408

A BILL

To repeal section 13b of the Federal Reserve Act, to amend section 13 of the said Act, and for other purposes.

By Mr. TOBEY

JANUARY 27, 1947

Read twice and referred to the Committee on Banking and Currency

March 14, 1947.

Mr. Bernard M. Baruch,
597 Madison Avenue,
New York 22, New York.

My dear Mr. Baruch:

I was pleased to have your letter of March 11. We sponsored S. 408 under which the Reserve Banks would function as they did under the V-loan program. This would be in accordance with your joint report with Mr. Hancock. The only material difference between S. 408 and the previous Wagner-Spence Bill is that the Federal Reserve Banks would use their surplus as a basis for guaranteed loans under S. 408 instead of using the 139 million dollars derived from the gold increment which was set aside for the industrial loans under section 13b of the Federal Reserve Act.

The reason for the change was that at my instance the Board proposed to turn back to the Treasury this 139 million dollars in view of the urgency of the Treasury's budgetary needs. In addition, we proposed that FDIC reimburse the Federal Reserve for another sum of 139 millions that was taken from our surplus and put into the FDIC's guarantee fund back in 1933. As you know, the banking system is in a stronger position than ever before and the FDIC's surplus has gone up above a billion dollars. I have long felt that the banks, which bitterly complained about Government subsidies, should not have a subsidized insurance fund. Therefore, I have advocated that the FDIC pay back most of the Government money.

The President's Budget Message proposes three things in this connection: First, the 139 millions that the FDIC received from our surplus would be returned and covered into the Treasury; second, the additional 139 millions out of the gold increment set aside for 13b would be turned back to the Treasury; third, the FDIC would pay to the Treasury 100 million of the 150 millions which the Treasury put into the FDIC fund. I mention this because you will note that these items add up to 378 million dollars, whereas the President's Budget Message showed a surplus of only 200 million dollars. The Budget Director, accordingly, has been ascribing to me in conversations I have had with him the achievement of this balance because his budget did not show a surplus until after he had talked with me and I had mentioned these potential items.

Any support that you could muster for S. 408 would certainly be greatly welcomed and appreciated. The chief opposition, so far as I can see at this time, comes from big city banks, particularly in New York, because of their correspondent relationships. In other words, they want to take on loans that their correspondents would only be able to carry under the partial guarantee proposal.

I agree with you that we are reaping a harvest of mistaken fiscal and Government financing policies and premature removal of controls. One of the worst mistakes was to repeal the excess profits tax altogether while keeping the carry-back excess profits credit. It might well have been reduced from the peak wartime levels, but taking it off entirely produced the situation which is illustrated by the Nathan Report.

There is every indication that in the latter part of this year or early next year we are going to get a reaction from this inflationary situation and unemployment of an indeterminate degree. Accordingly, if any taxes are to be reduced, the benefit, in my opinion, should go to the lower income groups who have suffered most from inflated prices and whose purchasing power would be needed in a recession. I feel that any tax reductions, therefore, should not apply during an inflationary period and should not be applicable until the beginning of 1948.

It was good to hear from you and to know of your continuing interest in the objectives of the proposed bill.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b